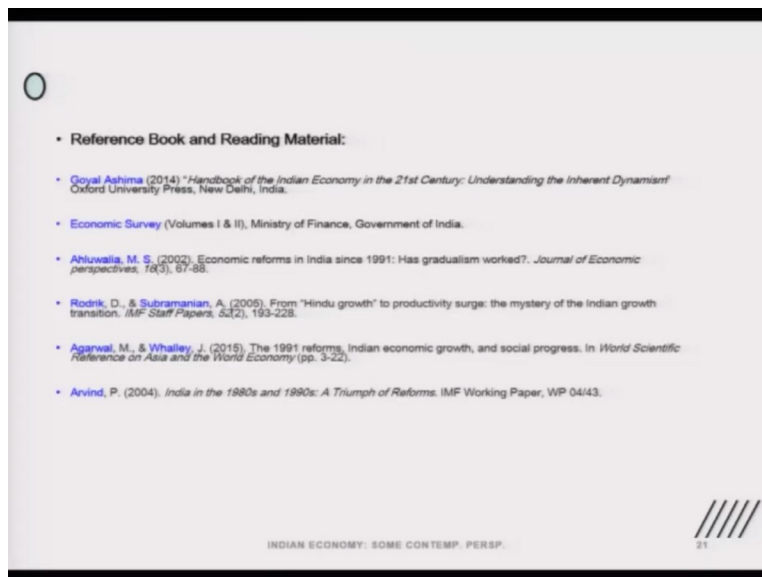


**Indian Economy: Some Contemporary Perspectives**  
**Professor Wasim Ahmad**  
**Department of Economic Sciences**  
**Indian Institute of Technology, Kanpur**  
**Lecture-03**  
**Indian Economy: Economic Planning 3**

So, we are going to start, now we will be covering lecture 3. So, we have covered lecture 1 and 2, and in that we have talked about how India has to go through different phases of development, how we have planned our planning process and what we have achieved in Five Year Plan one and second Five Year Plan. Second Five Year Plan was important, and then we covered also third and fourth.

In lecture 3 we will be having, I would say, different understanding about the planning, sixth and seven and beyond. And we will be also saying that whatever we study in textbook about 1991 balance of payment crisis in India, so what is that all about? So, do we know something in detail? Can we explore further and find out what were the reasons for that 1991 debacle? So, this will be the main objectives of this lecture. So, you can say this will be the learning objectives.

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And then readings will remain same, as I have mentioned in last 2 lectures that whatever papers that I have cited here from Economic Survey, Ahluwalia, and then Roderick & Subramanian, then I also have done Agarwal and Whalley, and Arvind, these authors have contributions in

India's economic history. And then if you read these papers, you will have better idea. So, apart from my lectures, if you want to refer, then these references will be the most appropriate ones.

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**Indian Economic Development: Some Historical Perspectives**

- The sixth (1980-85) and seventh (1985-90) five-year plans paved the way for economic liberalization.
- Sixth FYP had the target growth rate of 5.2% and the achievement was 5.7%.
- Similarly, Seventh FYP achieved the growth rate of 6.01% though the target was 5.0%.
- During the period of (1985-1990), several measures of economic liberalization were undertaken in the forms of MRTP relaxations, overseas collaborations (joint ventures), investment incentives under MRTP act for setting-up businesses in backward areas, incentives under Foreign Exchange Regulation Act (FERA).

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Then in terms of development, so we will be now covering sixth and seventh. We have covered up to fifth plan, and up to fifth plan we had the cases where we had gone for some kind of structural changes, we had to introduce certain measures. But after 1980s we realized that we will no longer be able to bear the burden of whatever we have, the socialistic pattern or planning, and also the import substitution policy.

So, sixth and seventh plan have a special place in India's economic history, because in these 2 plans, Government of India had taken a whole lot of measures to revive not only the industrial growth, but overall growth of the economy.

Now, from sixth and seventh plan onwards, you will find that the focus was also on checking the performance of different sectors in India's economy and also towards giving to the lowest strata of the society. So, there will be some kind of talk about social transformation, how we can revive our rural economy, what were the policies.

So, during this era, you will find that apart from the Janta Party government in 1970s, in this particular era you will find that there will be a sense of liberalization process going, because China was already doing good and in 1979 they had opened the economy for all other countries.

And in this particular decade, it was very important for India to think about how we are going to go ahead.

So, the mixed economic setup that we had, we realized that there is going to be extra burden on the exchequer, because public sector companies were not doing really good. So, there were some drastic measures taken. So, that is why sixth and seventh plans are very crucial to understand from the modern India's perspective.

So, even in the contemporary context, whatever we see in terms of consolidation of banks, we have the banking sector upheavals, then we have a different restructuring program going through in terms of Make in India and the different set of entrepreneurship initiatives, you will find that these measures are somewhere linked with the prior developments also. So, pre-1991 is really important to understand, at least first 10 years that how we had done in that particular decade.

So, the sixth and seventh plans were successful plans. So, we had the target of 5.2 percent, but we achieved the growth rate of 5.7 percent. In the seventh plan also, we achieved the growth rate of 6 percent and beyond, and then though the target we had set was around 5 percent. And in this particular period, whatever we have from 1985 till 90, we took a lot of measures in terms of industrial growth. So, there was licensing norms, MRTP Act, so there was some modification in MRTP Act and MRTP relaxations were made.

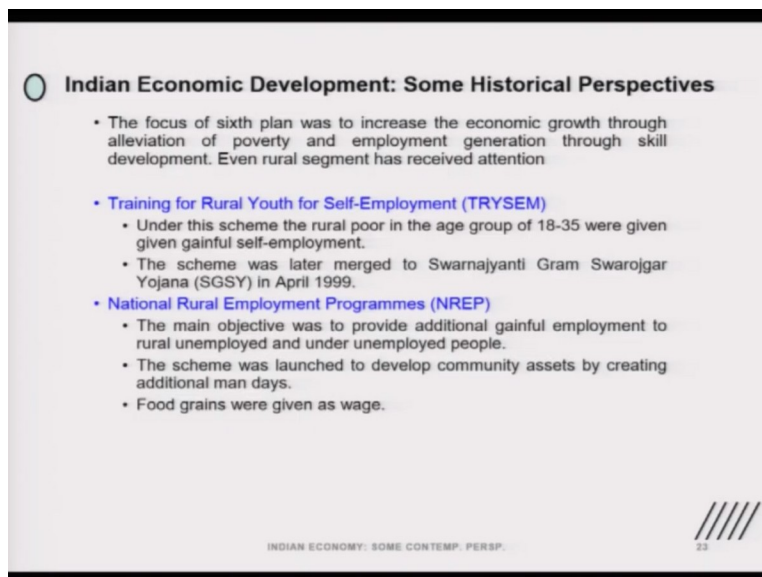
The companies were open for joint ventures. So, if a foreign company wants to set up the business in India, then they can collaborate with Indian firm and Indian firm would be happy to set up plans and they can also go for certain clearances that were required at that time.

Then investment incentive was also there for setting up businesses. If you are setting up your business in rural areas, you will be given certain incentives. So, that is still continuing, but it was conceived during that time.

Then under Foreign Exchange Regulation Act, there were certain incentives given for import of technologies, if the company wants to import some technology from outside then they will be given an incentive. So, during 1985 and 90s, these were the major reforms.

So, these reforms may not be looked only from the perspective of industrial growth, but it was also for the services sector, because some companies operating in IT-enabled services, not IT-enabled services exactly but information technology services, they also had great difficulty in collaborating outside and expanding the businesses, they also found these two measures quite useful. So, that is why it is really important to understand.

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- The focus of sixth plan was to increase the economic growth through alleviation of poverty and employment generation through skill development. Even rural segment has received attention
- **Training for Rural Youth for Self-Employment (TRYSEM)**
  - Under this scheme the rural poor in the age group of 18-35 were given gainful self-employment.
  - The scheme was later merged to Swarnajyanti Gram Swarajgar Yojana (SGSY) in April 1999.
- **National Rural Employment Programmes (NREP)**
  - The main objective was to provide additional gainful employment to rural unemployed and under unemployed people.
  - The scheme was launched to develop community assets by creating additional man days.
  - Food grains were given as wage.

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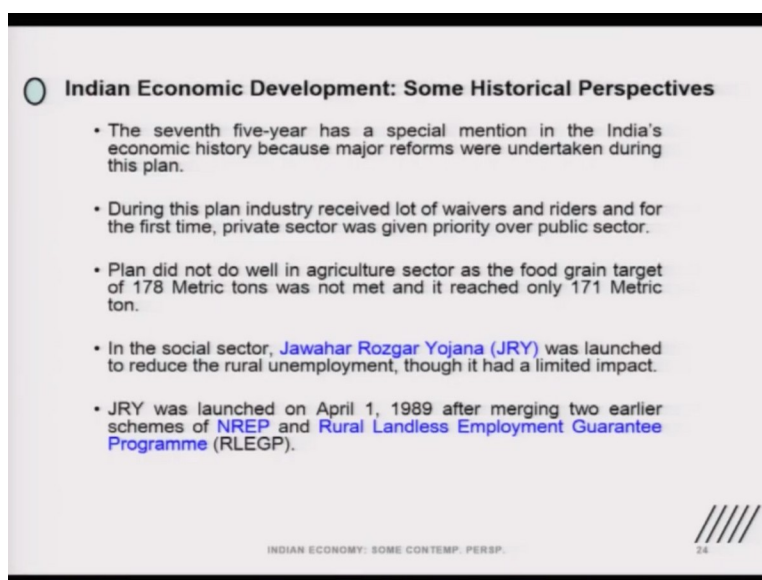
Now, you will find that apart from these drastic changes that were taking place, we also had focused on social transformation that what, how we can think about the rural population, the people who are living in a village, how we can revive their life and how we can think about. So, there was a policy announcement regarding that, it was Training for Rural Youth for Self Employment, it was TRYSEM scheme.

This particular scheme was really important, it was launched in 1979 and then it was decided that there will be some self-employment opportunity, so there will be some training plus credit given to the rural population below the age of or in the age group of 18 to 35. And then this particular plan helped a lot, so by 1996-1997, as per the study, it was around 3.6 lakhs people were benefited from this particular scheme.

This particular scheme was later merged into Swarnajayanti Gram Swarojgar Yojana, that is called SGSY in April 1999. But before that, this particular scheme was a buzz, and though the success rate was not that high, but still it had impact on the rural segments of the country.

Now, then we had a National Rural Employment Programs, under this it was decided that some number of extra hours, additional hours will be created, and the rural population will be encouraged for the capital asset creation. And this particular task was designed to give employment to the rural youth and those who are unemployed at the village level. And in terms of way the food grains were distributed.

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- The seventh five-year has a special mention in the India's economic history because major reforms were undertaken during this plan.
- During this plan industry received lot of waivers and riders and for the first time, private sector was given priority over public sector.
- Plan did not do well in agriculture sector as the food grain target of 178 Metric tons was not met and it reached only 171 Metric ton.
- In the social sector, **Jawahar Rozgar Yojana (JRY)** was launched to reduce the rural unemployment, though it had a limited impact.
- JRY was launched on April 1, 1989 after merging two earlier schemes of **NREP** and **Rural Landless Employment Guarantee Programme (RLEGP)**.

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So, this was also a big talk in the rural areas, and in some states this particular policy had done a good job, and later it was converted into food right and then it also became a part of JRY. So, this particular scheme was there.

Seventh Five Year Plan also has a lot of importance in terms of giving more priority to the private sector. So, for the first time, Government of India had gone for giving more priorities to the private sector compared to the public sector, because public sector was becoming a big liability on the exchequer and government also wanted to get rid of. So, in a phase-wise manner, they had gone for a whole lot of, I would say, deradicalization of public sector in the economic development sphere process.

In terms of agriculture, this particular plan, though it did not achieve the target, but still it can be called as quite successful. Government of India was able to procure around 178 metric tons of food grains. And though the main target what we had achieved 178, but it achieved only 171 metric tons.

Now, in the social sector, there was also one major centrally sponsored, so it was 80 percent fund of this particular program came from center and 20 percent was contributed by the state. So, it was called Jawahar Rozgar Yojana. Under this rozgar yojana, what was the purpose of giving the employment to the rural youth. And the main characteristics of this particular JRY scheme was that it was directly given to the panchayats and panchayats were told to spend this money on certain activities, especially in terms of capital creation.

But in terms of job employment growth, this particular scheme was also not that great success, but still it is considered as one of the important initiatives. For the first time Government of India had intervened at the state level and it was told that the money will come from the center and it will be monitored.

But there were certain loopholes in this particular scheme, because in some ministers it was reported that some village had the issue of water scarcity, but because of this particular scheme, because there was no rider of using that money for any kind of water reservoir or any kind of expenditure of that type, then in some pockets of the country there was resentment against this particular scheme that it is not fruitfully utilized.

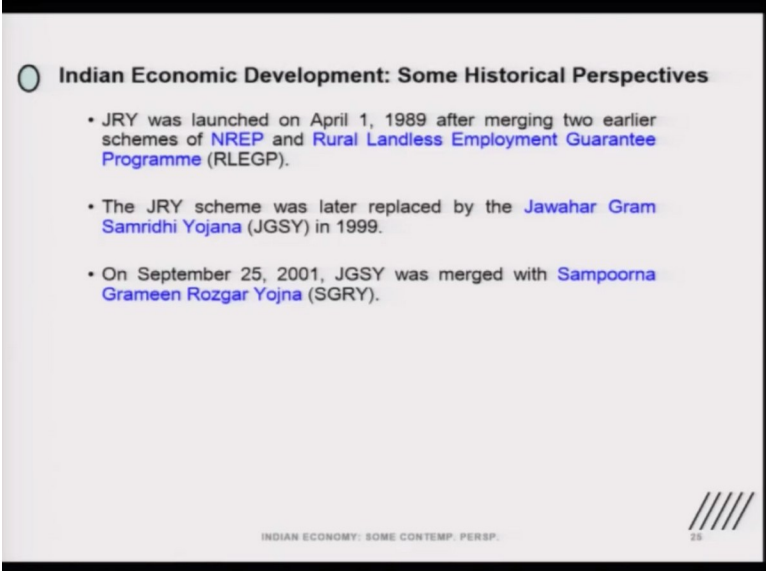
And though the government had done a good job in terms of minimizing the bureaucratic interfere, but still there was a lot of talk about how the bureaucrats were not allowing to spend the money in different activities.

Then, JRY was launched on April 1, 1989, after merging two earlier programs, so NREP and Rural Landless Employment Guarantee Program, so these two were merged in JRY. So, JRY became a giant employment scheme, especially for rural youth. So, what is more important, why I highlighted here, I may have one separate half an hour session on these schemes, social welfare schemes at the village or, I would say, rural segment level.

But here, why I am mentioning that, because so far what we have discussed is in terms of industrialization or agriculture or overall India development. But we can see that in 1980s the focus was also on redistribution. Because if you are focusing only on industrialization, if you are focusing only on the sectoral development, then it may happen that the urban segment may grow faster than rural segment, and rural segment had almost 58 percent or more than 58 percent people were living on the agriculture, and most of the agriculture output comes from the rural segment.

So, you cannot ignore the rural segment, and there is complementarity between agriculture and industry also. So, in order to explore that and to give some kind of, I would say, opportunity to the rural population, it was decided that it is time to look at the redistribution mechanism also. So, that is why sixth and seventh plans are very crucial to understand the nature of shift from the heavy industrialization or heavy economic development to the redistribution.

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- JRY was launched on April 1, 1989 after merging two earlier schemes of NREP and Rural Landless Employment Guarantee Programme (RLEGP).
- The JRY scheme was later replaced by the Jawahar Gram Samridhi Yojana (JGSY) in 1999.
- On September 25, 2001, JGSY was merged with Sampoorna Grameen Rozgar Yojna (SGRY).

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So, JRY scheme was later merged into Jawahar Gram Samridhi Yojana. Under this scheme, the emphasis was given on the capital asset creation, which means that if the village is having a scarcity of some capital assets, for example, asset creation in terms of water pond, or if you want to have good roads, or if the village is not having any sort of playground, so the money can be used for that.

So, on September 25, 2001, JGSY was merged into Sampoorna Grameen Rozgar Yojana, so these schemes are important. So, I think with the introduction of these schemes, now at least it is clear that how we have progressed, how we have gone through the planning process.

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Average Annual Growth Rates During Selected Periods

| Period                        | Growth Rate (in %) |
|-------------------------------|--------------------|
| 1951-52 to 1973-74            | 3.6                |
| <b>Pre-1991 reform period</b> |                    |
| 1981-82 to 1990-91            | 5.7                |
| 1981-82 to 1991-92            | 5.3                |
| 1977-78 to 1990-91            | 5.1                |
| <b>Memo</b>                   |                    |
| 1974-75 to 1978-79            | 4.9                |
| 1978-79 to 1987-88            | 4.1                |
| 1981-82 to 1987-88            | 4.8                |
| 1988-89 to 1990-91            | 7.6                |

Source: Arvind, P. (2004). *India in the 1980s and 1990s: A Triumph of Reforms*. IMF Working Paper, WP 04/43.

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Now, there is one more term that we often read in newspaper and we also talk about, which is called the Hindu rate of growth. So, you will find that, I have taken it from Arvind Panagariya paper, he mentioned it about; India in the 1980s, 1990s: A Triumph of Reforms. It is IMF Working Paper.

It was found that during 1951-1952, which means that from the first Five Year Plan onwards, till 1973-74, India achieved the growth rate of not more than 3.5 percent. So, our annual growth was not that much higher. So, at that time, it was told by Raj Krishna that since the number 3.5 percent looks like a norm, which may look like an Om, so that is way it was told that it is Hindu rate of growth.

But the idea is that if the low growth rate persisted for a longer period of time, which means that 10 to 20 years, which also means that it was linked to the Hindu civilization that how it has been exploited. The idea was that the kind of policies that we had implemented, especially in terms of socialistic policies, and the socialistic policies were not really working in terms of poverty alleviation and the rural development. So, it was found that these policies are suppressing the



growth and that is why we are not able to achieve, in the same way the Indian civilization has been invaded from outsiders. So, this also looked like that USSR idea, whatever we are trying to implement, it may not be that much successful. So, that is why the term Hindu rate of growth comes from this. So, here it is.

And then then if you look back from the perspective of pre-1991 reform period, so here there is a spelling mistake, it is r-a-t-e, rate of growth. So, if you look at the pre-1991 reform period, you will find that after 3.6, we started doing well, which means that from 1980s onwards, when we had certain norms of reforms, we started doing well. We had the growth rate of 5.7 percent, 5.3 percent, 5.1 percent, so these growths are really important to see.

Why 1980s are important? Because from here onwards, we started going for or moving towards complete public sector run economy, to a complete a mixed set of kind of economy where the private sectors were also given importance. If you look from the further periods 1974-75 to 1978-79, it is 4.9 percent, 4.1 percent, 4.8 percent. And in 1988-89, we have the growth rate of 7.6 percent. So, this also shows that when we had gone for a certain reform, it has really helped.

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**Indian Economic Development: Some Historical Perspectives**

- **Major liberalization measures during 1985-90**
  - The seeds of economic liberalization were sown during 1980s.
  - *“Liberalization by Stealth”* is often a name attached to it.
- Three committees helped foster the process:
  - **Narasimham Committee (1985)** that modified the MRTP norms by bringing more flexibility to the direct control. The committee recommended for indirect controls through tax and subsidies and not through direct or physical control.
  - **Sengupta Committee (1984)**: on strengthening the public enterprises.
  - **Hussain Committee (1984)**: To streamline the trade-related issues. The committee also recommended for opening the economy for a healthy and competitive industrial base.
    - Two earlier committees were **Alexander Committee (1978)** and **Tondon Committee (1980)**.
    - EXIM Bank was set-up in 1982

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Then if you, as I mentioned that the seeds of liberalism process were sown in 1980s, post 1985s when Indira Gandhi came in power. And at that time, there was a talk about since the left leaning parties and the socialist parties were in power, they were powerful. So that is why the

liberalization measures were taken in a quiet manner, I would say making a lot of noise. So that is why it is called liberalization by stealth, because it is just that silently it was done to attract more investment, more private sector participation, to think about productivity, to think about having a higher generation of employment.

So, at that time, there are three committees which are worth mentioning here, so I thought I should be mentioning it. One is called Narasimham Committee. In case of Narasimham Committee, this particular committee was tasked to revise the MRTP norms. So earlier, the licensing norms was completely based on physical requirement that how many types of items you are going to produce and what will be your quantity of production. So, the physical control was there.

This particular committee recommended that since we are going towards a particular set where we have a sufficient scope for import substitution, plus the industrialization process is doing good, so it is better that we should also give more freedom and we should move from physical to fiscal kind of management of industrial licensing.

So, for the first time, this particular committee had recommended that and it was accepted also, which means that if you were going to set up or if you were going to seek license, setting up a plant in the rural segment of the economy, you will be given some incentives, some tax incentives also. So, that was the plan to expand the industrial base to expand the horizon.

So, horizontally if you want to expand, you should be giving more incentive, you cannot just keep control on the fiscal output. And firms were also having some difficulties in import of certain technologies, because it was not allowed under some licensing norms. And it was very cumbersome. So, this particular Narasimham Committee report, for the first time it emphasized that we should be looking for certain kind of streamlining MRTP norms.

Then there was a Sengupta Committee, Senupta Committee report, surprisingly, this committee gave almost 60 points agenda to revive the public sector companies, PSUs basically. But government was not happy, and that is why it never came in limelight and it remained in the shelf of the ministries concerned.

So, if you go through the recommendation of this committee, so the committee recommendations were very powerful. But at that time, public sector firms were also equally powerful, so the recommendations were not implemented in exact terms. But government took some measures. For example, there was an evaluation score for the Managing Directors of PSUs, the chief executive officers of these PSUs, so that there will be some accountability from these people also.

It was also recommended that there should be some contract between PSUs and the government for five years. If a PSU is not doing good, then contract will not be renewed and then it will be going for disinvestment measures or so some kind of some punishment will be given. There was also accountability in terms of the workforce that how you are going to employ, how you are going to train. So, there was a whole lot of public sector enterprise management recommended by this Sengupta Committee. But unfortunately, the committee's recommendation was never in limelight.

Then there is one more important committee which is called Abid Hussin Committee. It was constituted in 1984. But before that we also had two committees, it was Alexander Committee in 1978 and Tondon Committee in 1980. Based on these two committees' recommendation, India had gone for export import policies for three years. It was decided that we should have the export import policy which is called EXIM policy for three years. And then EXIM Bank, whatever we have right now, Export Import Bank of India, which is in Mumbai right now, it was established in 1982.

So, based on these two committees' recommendation, Alexandra Committee and Tondon Committee recommendations, this EIM Bank idea came up. And also, it was decided that since we are going to expand our economy and looking for certain objectives, then it is always good that we should have a dedicated institution to monitor that.

So, that is why EXIM Bank looks after export import policies, credit related issues and even a streamlining certain trade regulation. So, Hussain Committee had recommended for opening up the trade for the private sector and how government can help these firms to boost the export.

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- 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.
  - Investment in Small-scale industries were revised upward from 20 lakh to 35 lakh.
  - The criteria of delicensing was used as:
    - Rs. 15 crores for non-backward area
    - Rs. 50 crores for centrally declared backward area.

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In March 1985, 25 broad categories of industries, including 82 bulk drug formulations were de-licensed, which means that these important industry measures were helped to expand these industries or there will be a free entry of firms coming into these particular sectors. So, in order to give boost to the pharmaceutical industry, this particular measure was taken.

In 1988, almost all industries had delicensing incentive, except for 26 strategic industries. So, in 26 strategic industries, as we have already discussed this in detail in last two classes, that how we have gone from focusing only on a strategic and the infrastructure, and rest were given to private. So, these continued, so strategy and environmental. And in environmental, the firms which are sensitive from the environmental management perspective.

The industrial licensing incentives were also given for fulfilling production limits, if whatever you have the quantities, if you are going to produce that amount, then you will be given incentive. There was also be a special incentive given to a smaller scale industry, there was a revision, so it was also revised in terms of not just amount, but in terms of coverage also.

The delicensing criteria was used there, if you are having a firm and if you set up that firm in the backward areas, so that will be around Rs. 50 crores. And if you are in non-backward areas, then it will be around Rs. 15 crores. So, these were the incentive measures that were taken at that time.

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**Indian Economic Development: Some Historical Perspectives**

- Major liberalization measures during 1985-90
  - In 1987, overseas companies were invited to seek approval for collaborations and even apply for approvals in their own names.
  - Firms with export orders were permitted to manufacture and export the ordered item without seeking any industrial license and approvals.
  - For delicensed industries, only secretariat level approvals were required.
  - These measures had an immediate impact, and the economy registered the growth rate of 7.6% during 1988-1989 to 1990-91.
  - Export also showcased a better outlook and registered the growth rate of 14.4% during 1985-90.
  - Imports under Open Group Licensing (OGL) registered an impressive growth and moved up from 5% to 30% during 1980-81 to 1987-88.
  - The share of canalized imports also saw a decline from 67% to 27% during 1980-81 to 1986-87.

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Apart from this, there were certain measures that were taken after 1985 when government thought that since they have already gone for liberalizing or they have already gone for delicensing under MRTP Act, it is better that they should also look for incentives to those firms which are going to have a completely different scenario. For example, in 1987, overseas companies were invited to have a joint venture.

If the firm is delicensed, then they can also go for only secretariat level clearance, they do not have to. And it was also mentioned that if you are having a firm which is set up and it is going only for export, it is not utilizing the domestic market, then also you will be given incentives. For example, firms with export orders were permitted. Because of this, we found that the export had also gone up and it has registered the growth of 14.4 percent during 1985-90.

There was a canalized import also going up. So, for example, when we had delicensed then we had seen that oil, petroleum products, apart from petroleum products some items were also part of canalized import, so that we are also quite revised. So, it also saw some amount of decline because we were able to produce domestically, some firms were already operating in those products, so that is why we saw the decline from 67 percent to 27 percent.

So, the overall picture is that under sixth and seventh plan, we had setup a completely different picture. We had gone for the redistribution, we had gone for the heavy industrialization,

liberalizing the industrialization process, we had gone for service sector trend, we had also gone for having a separate outlook for trade. So, five years export import policies were designed.

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- **New Industrial Policy -1991**
  - The New Industrial Policy (NIP) has a special place in the Indian economic history as it ushered a new era of economic reforms. Some of the broad measures were:
    - **End of License Raj or Red Tapism:** NIP had almost abandoned the industrial licensing system. Only 13 sectors were eligible for industrial licensing.
    - **Focus on the efficiency of PSUs:** NIP took restructuring measures and loss-making PSUs were up for disinvestment (through *Board for Industrial and Financial Reconstruction*) and even sold to private sector. PSUs were given more autonomy in their decision-making.
    - **Private sector entry to industrial sector:** Except atomic, mining and railways, all other sectors were eligible for private sector entry. This step is often known as 'Industrial deregulation'.
    - **Promotion to foreign investment:** Rules were relaxed to attract foreign investment and foreign technology. Foreign Direct Investment and Foreign Portfolio Investment were allowed.
    - **MRTP Act was abolished.**

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And after this we had the New Industrial Policy, so that we will be continuing.

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**Indian Economic Development: Some Historical Perspectives**

- **Major liberalization measures during 1985-90**
  - In 1987, overseas companies were invited to seek approval for collaborations and even apply for approvals in their own names.
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  - Imports under Open Group Licensing (OGL) registered an impressive growth and moved up from 5% to 30% during 1980-81 to 1987-88.
  - The share of **canalized imports** also saw a decline from 67% to 27% during 1980-81 to 1986-87.

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Under canalized imports, it is important to note that here you have a different set of criteria, one is called protected, and under that there will be different norms to input. So, under a trade

classification, you will find canalized imports, which means that these goods are having certain norms to be imported.

Then open group licensing was also implemented. Under that we had certain firms allowed to participate, so that is why it is very important to understand. So, in the next session, we will be talking about New Industrial Policy Reforms, we will be talking about how we are going for a different set of reforms starting from here. Thank you. Thank you so much.