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INDIAN ECONOMY

CHAPTER 2

Economic Planning & Five Year Plans

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CHAPTER 2

Economic Planning & Five Year Plans

From the Planning Commission to NITI Aayog

IN THIS CHAPTER

- Economic Planning in India
- Five Year Plans at a Glance

Economic Planning in India

Economic planning means the long-term plans of the Government of India to develop and coordinate the economy with efficient use of resources.

- The idea of **five-year plans** was taken from the **Soviet Union (USSR)**, under the socialist influence of India's first Prime Minister **Pt. Jawaharlal Nehru**.
- The first eight five-year plans focused on growing the **public sector**, with huge investments in heavy and basic industries.
- From the **Ninth Plan (1997)** onwards, the focus shifted to making the government a **growth facilitator**.

Early Plans before Independence

EARLY PROPOSALS

1934	**M. Visvesvaraya** proposed economic planning for the first time in his book **"Planned Economy for India"**.
1944	**Bombay Plan** – planning was demanded by **8 Indian industrialists**.
1944	**Gandhian Plan** by **Shriman Narayan**.
1945	**People's Plan** by **M.N. Roy**.

Planning Commission to NITI Aayog

- The Constitution came into force on **26 January 1950**.
- The **Planning Commission** was set up on **15 March 1950**. The **Prime Minister** was its **chairman**.
- The plan era began on **1 April 1951** with the **First Five Year Plan (1951–56)**.
- The Planning Commission was responsible for making the five-year plans.
- In **2015**, it was replaced by a think tank called **NITI Aayog**.
- NITI Aayog brought out three documents: a **3-year Action Agenda**, a **7-year Medium-term Strategy Paper** and a **15-year Vision Document**.

REMEMBER

- Planning Commission: **15 March 1950** (Chairman: Prime Minister)
- First Plan began: **1 April 1951**
- NITI Aayog replaced the Planning Commission: **2015**

Five Year Plans at a Glance

Plan	Period	Key Features
First Plan	1951–1956	Based on the **Harrod–Domar model**. Highest priority to **agriculture**. Bhakra Nangal Dam, Damodar Valley Project and Beas (Vyas) Project started. Five **Indian Institutes of Technology (IITs)** were started.
Second Plan	1956–1961	Based on the **Mahalanobis model**; priority to **heavy industries**. Hydroelectric power projects and steel plants established: **Bhilai** (1959, with **USSR** help, then Madhya Pradesh), **Durgapur** (with **Britain**, West Bengal), **Rourkela** (1959, with **Germany**, Odisha). **Industrial Policy 1956** accepted a socialistic pattern of society as the goal.
Third Plan	1961–1966	Based on the Chakravarty model. A **failure** due to wars and droughts, yet **Panchayat elections** were started. **Bokaro Steel Plant** set up with USSR help. **Green Revolution** introduced.
Plan Holiday (Annual Plans)	1966–1969	**First plan holiday** (three annual plans). New agricultural strategy: high-yielding variety seeds, extensive use of fertilisers, irrigation and soil conservation.
Fourth Plan	1969–1974	Based on the Ashok Rudra and Alan Manne model. **14 major banks nationalised (1969)**. Green Revolution advanced agriculture.
Fifth Plan	1974–1979	Terminated **one year early** by the Janata government. **National Highway system** introduced for the first time. **Minimum Needs Programme (MNP)** started in the first year; prepared by **D.P. Dhar**.
Rolling Plan	1978–1980	Suggested by **Gunnar Myrdal**. **Second plan holiday** (two years). Janata government rejected the Fifth Plan and introduced a Rolling Plan: the plan is evaluated every year and a new plan is made the next year, so allocations and targets keep changing.
Sixth Plan	1980–1985	**Family planning** introduced to check overpopulation. **NABARD** established in **1982** on the recommendation of the **Sivaraman Committee**.
Seventh Plan	1985–1990	**Successful** – growth rate of about **6%** despite severe drought in the first three years.
Annual Plans	1990–1992	**Third plan holiday** (two years) due to economic instability and a **foreign exchange crisis**. **LPG reforms** (Liberalisation, Privatisation, Globalisation) introduced in 1991 under PM **P.V. Narasimha Rao**.
Eighth Plan	1992–1997	Promoted **MSMEs** and modernisation of industry.
Ninth Plan	1997–2002	Shift towards government as a growth facilitator.
Tenth Plan	2002–2007	**PURA** (Providing Urban Amenities in Rural Areas), recommended by **Dr. A.P.J. Abdul Kalam**.
Eleventh Plan	2007–2012	Prepared under **C. Rangarajan**. Theme: **"Rapid and More Inclusive Growth"**. Average growth of about **8%** – the most successful plan.
Twelfth Plan	2012–2017	**Last** Five Year Plan. Theme: **"Faster, More Inclusive and Sustainable Growth"**.

EXAM TIP

Three **plan holidays**: 1966–69 (three annual plans), 1978–80 (Rolling Plan), 1990–92 (two annual plans).

QUICK REVISION

1. M. Visvesvaraya's book "Planned Economy for India" (1934) first proposed planning.
2. Bombay Plan (1944) – 8 industrialists; Gandhian Plan – Shriman Narayan; People's Plan – M.N. Roy.
3. Planning Commission: 15 March 1950; replaced by NITI Aayog in 2015.
4. Five-year plan idea taken from the USSR.
5. 1st Plan – Harrod–Domar model, agriculture; 2nd Plan – Mahalanobis model, heavy industry.
6. Steel plants: Bhilai (USSR), Durgapur (Britain), Rourkela (Germany), Bokaro (USSR).
7. 14 banks nationalised in 1969 (Fourth Plan).
8. Rolling Plan (1978–80) suggested by Gunnar Myrdal.
9. 11th Plan was the most successful (~8% growth); 12th Plan was the last.