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India's growth strategy: Planning commission to NITI Aayog

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Abstract

After independence, issues relating to the growth and planning of Indian economy have been the subject matter of debate and discussion at home as well as abroad. Planning gave the direction regarding the growth rate of every sector of the economy. It is 70 years now since the initiation of the economic planning process in 1951. The scope of the economic planning undertaken has been wide ranging, covering such sphere as international trade, industrial production, financial markets, and foreign investment. The system of state control on economic activities has gradually been dismantled and replaced by a more market friendly economic system where economic decisions of private agents respond to market signals. The Indian economy has been achieving the high rate of growth after the planning process in India.

In India, where rapid economic growth has become a national goal, formulation of the macroeconomic strategy and policies that affect the future growth rate- its rate as well as pattern. The main objective of this paper is to analyses the planning experience of the Indian Economy after Independence. It has explained the planning experience of plan strategy from Planning Commision to NITI Ayoyg.

Keywords: strategy, growth, planning commission, NITI Aayog, economy

1. Introduction

From its earliest beginning, India's struggle for freedom had a large element of economic thinking and social reform. Freedom was considered the indispensible means to overcome mass poverty, to protect the farmer and the artisan, to create modern industry, to remove privilege and justice, and to reconstruct the entire febric of India's social and economic life.

The pre-independence period was a period of near stagnation for the Indian Economy (Kapila 1990) [9]. At that time, India had a slender industrial base, depend on traditional agrarian structure, economic stagnation, increasing pressure of population. There was widespread poverty and want. The backwardness of the Indian Economy was reflected in its unbalanced occupational structure. About 68 percent of the working population was engaged in agriculture, about 14 percent in industry some 8 percent in trade and transport and the remaining 10 percent in profession and services including domestic services. The basic needs of people were not fulfilled. Illiteracy was as high as 84 percent; majority of children, 60 percent in the 6-11 age group, were not attending school.

All these factors made it essential to rebuild the Indian economy, to lay the foundation of industrial and scientific progress, and to expand education and other social services. These called for planning on a national scale, encompassing all aspects of economic and social life for efforts to mobilize resources, to determine priorities and goals and to create a widespread outlook of change and technical progress (Dahiya 1997) [5]

Therefore the strategy of economic development that India was to follow had the following elements. The central objective of planning in India was to initiate a process of development which will raise the living standard and open out to the people new opportunities for a richer and more varied life. The problem of development of an underdeveloped economy was one of the utilizing more effectively the potential resources available to the community, and it involved economic planning (Planning Commission; 1951).

2. Role of Planning in Indian Economy

Planning Commission plays a very crucial role determining the growth trajectory of the Indian Economy. India's strong growth potential is a matter of debate between national and international agencies. The Indian economy is the world's fastest growing economy as compare to China during planning in India. In terms of purchasing power parity (PPP), India is the world's fourth largest economy after the US, China and Japan. According to the International Monetary Fund (IMF), India's share in world GDP was around 6.0 percent (at PPP adjusted exchange rates) in 2005, making nearly 10 percent contribution to world growth. Propelled by growth in services and manufacturing sectors, coupled with an appreciating rupee, India became a trillion dollar economy in 2006-07 on current exchange rates, and with that it moved into the elite club of 10 economic powerhouses that enjoy this distinction during planning period. But the economic slowdown affected the domestic demand and decreases the GDP growth in 2008-09. India sustaining a strong rebound with its strong domestic demand and rising business confidence.

After Independence, a formal model of planning was adopted, and accordingly the Planning Commission was established on 15 March 1950. Planning in India started in 1951 under the leadership of Jawaharlal Nehru who was strongly influenced by the Soviet ideology of industrialization. After initiation of the development planning process in 1951, the Indian economy grew at an average rate of about 3.5 percent for three decades. India's economy expanded during the 1980s to reach an annual growth rate of about 5.5 percent at the end of the period. It increased its rate of growth to 6.7 percent between 1992-93 and 1996-97, as a result of the far-reaching reforms embarked on in 1991 and opening up of the economy to more global competition. Its growth dropped to 5.5 percent during 1997-98 to 2001-02 and to 4.4 percent in 2002-03, due to impact of poor rains on agriculture output. But, due to good monsoon that led to a turnaround in the agriculture sector, India's economy grew at a rate of 8.5 percent in 2003-04. In 2004-05, growth rate dropped to 7.5 percent. After that it has recorded a growth rate of 9.0 percent in 2005-06, and 9.4 percent in 2006-07. There was a significant fall in the growth rate due to global financial crisis in 2008-09. Due to slowdown the economy unable to reach the growth rate estimated by Planning Commision (2007) which was estimated average of 9 percent between 2006-07 and 2011-12. The growth rate of gross domestic product in 2008-09 was 6.7 percent. (Government of India; 2010). The decreasing growth rate affects the all sector of the economy.

According to economic survey on Indian Economy "Brighter prospects in India owe mainly to the fact that the economy stands largely relieved of the vulnerabilities associated with an economic slowdown, persistent inflation, elevated fiscal deficit, slackening domestic demand, external account imbalances, and oscillating value of the rupee in 2011-12 and 2012-13. From the macroeconomic perspective, the worst is clearly behind us.

Recently Central Statistics Office (CSO) has revised the national accounts aggregates by shifting to the new base of 2011-12 from the earlier base of 2004- 05. The economic scenario presented by the new series (with 2011-12 as base year) reveals that there was perceptible improvement in some of the macro-aggregates of the economy in 2013- 14, which got strengthened in 2014-15. Factors like the steep decline in oil prices, plentiful flow of funds from the rest of the world, and potential impact of the reform initiatives of the new government at the centre along with its commitment to calibrated fiscal management and consolidation bode well for the growth prospects and the overall macroeconomic situation. Encouraged by the greater macro-economic stability and the reformist intent and actions of the government, coupled with improved business sentiments in the country, and improved the ranking list of institutions like the IMF and the World Bank. The possible headwinds to such promising prospects, however, emanate from factors like inadequate support from the global economy saddled with subdued demand conditions, particularly in Europe and Japan, recent slowdown in China, and, on the domestic front, from possible spill-overs of below normal agricultural growth and challenges relating to the massive requirements of skill creation and infrastructural upgradation. Economic growth, measured by growth in gross domestic product (GDP) at constant market prices, estimated at 5.1 per cent and 6.9 per cent respectively during 2012-13 and 2013-14, was higher than the corresponding figures of 4.7 per cent and 5.0 per cent released under the 2004-05 series in May 2014. That this high growth occurred in a year when the both the savings and investment to GDP ratios were lower than the average of a number of years and when the level of imports (that are generally positively associated with GDP) actually declined by 8.4 per cent in real terms, is somewhat puzzling. One of the reasons why the real GDP growth rate for 2013-14 appears to be strong is the lower GDP level in 2011-12 and 2012-13 along with lower GDP deflators than were thought hitherto. The encouraging results from the Advance Estimates for 2014-15 suggest that though the global sluggishness has partly fed into the lacklustre growth in foreign trade; yet this downward pressure has been compensated by strong domestic demand, keeping the growth momentum going. (Economic Survey: 2015).

3. Role of NITI Aayog in Economic Development

National Institution for Transformation of India (NITI) Aayog Founded on 1st January, 2015, it has been created to serve as the think tank of the Government of India. It plays a leadership role in policymaking in the central government, works closely with state governments, serves as a knowledge hub and monitors progress in the implementation of policies and programmes of the Government of India. The institution provides the central and state governments with relevant strategic and technical advice across the spectrum on key policy elements in different areas. These include matters of national and international importance on the economic front, dissemination of best practices from within the country and from other nations, the infusion of new policy ideas and specific issue-based support. As the premier policy 'Think Tank' of the Government of India, NITI Aayog aims to evolve a shared vision of national development with the active involvement of States. It fosters cooperative federalism through structured support and policy guidance to the states on a continuous basis. The institution designs strategic and long-term policy and programme frameworks and initiatives and monitors their progress and their efficacy regularly. It uses the lessons learnt from monitoring and feedback to make innovative improvements, including necessary mid-course corrections. Also, NITI Aayog actively monitors and evaluates the implementation of programmes and initiatives, including the identification of the needed resources so as to strengthen the prospects of success of the latter (NITI Aayog; 2017) [13].

In its recent meeting, on 27th December, 2016, NITI Aayog organized a roundtable with economists and experts on the theme 'Economic Policy – The Road Ahead', under the Chairmanship of Hon'ble Prime Minister. The experts gave suggestion on issues of critical importance to the Indian economy such as agriculture, skill development and job creation, taxation and tariff related matters, education, digital technology, housing, tourism, banking, governance reform, data driven policy, and future steps for growth. At the meeting, the Prime Minister called for innovative approaches towards governance in the fields of skill development and tourism. It will increase the growth pattern of the Economy.

Table 1: Functional comparison of planning commission and NITI Aayog

<table>
<tr><th>Planning commission</th><th>NITI Aayog</th></tr>
<tr><td>Design FYP-Five year plans</td><td>Design national agenda, and cooperative federalism.</td></tr>
<tr><td>Decide two “money” matters:</td><td rowspan="2">• Mostly work as a “policy-formulation-hub”. The Press release is ‘silent’ on money/funding. so, most probably it’ll be left to finance ministry.</td></tr>
<tr><td>How much money to give to each state for centrally sponsored schemes (CSS)</td></tr>
<tr><td>How much money to give for each state’s own state-five-year-plans.</td><td>Some experts believe Inter-state council will decide money allocation to states, then finance ministry will release the fund.</td></tr>
<tr><td>States/UT were represented in National Development Council.</td><td rowspan="2">States/UT represented in Governing council. But no specific mention about whether they can approve/reject/amend Niti Aayog’s proposals?</td></tr>
<tr><td>PC framed FYP=>went to Cabinet=>NDC approved FYP=>Tabled in parliament.</td></tr>
<tr><td rowspan="3">One size fits all, top-down socialist planning by Armchair Nehruvian economists and IES cadre officers (Indian Economic Service).</td><td>• Press release talks about participatory planning but how exactly will they do that? No specific details laid out.</td></tr>
<tr><td>• IES officers are rarely invited in Modi’s meetings.</td></tr>
<tr><td>it’ll be an ‘indicative planning + core planning’ i.e. after inputs of state governments, a broad outline with selected targets, limited subsidies and monitoring through ICT.</td></tr>
</table>

4. Growth Rate, Savings and Capital Formation during the Planning Period

In India, attainment of higher rate of economic growth received topmost priority in almost all the five year plans of the country. But the achievements of planning in India are far short of its targets. Recently new government make new National Institution for Transforming India (NITI Aayog) replacing Planning commission to develop mechanism credible plans at the village level and aggregate at higher levels of government. Planning commission formed Central Plans, Niti Ayog didnot formulate them anymore. It has been vested with the responsibility of evaluating the implementation of programmes.

Table 2 (appendix) shows the targeted and actual growth rate of the economy since 1950-2010. There are two distinct growth periods: a first phase from 1950 to 1980 (phase I) and second phase from 1980 to 2004 (phase II) (Virmani 2004a) [24]. The first phase is characterized by slow growth rate in GDP as comparison to phase II. The economic activity is being supported by a significant rise in domestic savings and capital formation. Insufficiency of capital is considered as an important limiting factor for growth (Ahmad, 2007) [2]. The step up in the growth rate of the Indian economy since 2003-04, has been driven by a higher capital formation, supported by a sizeable increase in the rate of gross domestic savings. As per the first Advance Estimates (AE) released by the CSO, the Indian economy is estimated to register a GDP growth rate of 7.1 per cent in 2016-17.

Table 2: Targeted and Actual Growth Rates of the Indian Economy

Plan Period	Targeted Growth Rate	Actual Growth Rate
1951-56	2.1	3.5
1956-61	4.5	4.2
1961-66	5.6	2.8
1966-68	---	3.9
1969-73	5.7	3.2
1974-78	4.4	4.7
1979-80	---	-5.2
1980-84	5.2	5.5
1985-89	5.0	5.6
1990-91	---	3.4
1992-97	5.6	7.9
1997-2002	6.5	5.7
2002-07	8.0	7.6
2007-12	9.0	8.0
2012-17	---	6.6
2012-13	---	5.4
2013-14	---	6.3
2014-15	---	7.1
2015-16	---	7.2
2016-17	---	7.0

Source: Planning Commission, Twelfth five year plan, Government of India, New Delhi, 2012 Economic Survey 2016-17, Government of India, New Delhi, 2017.

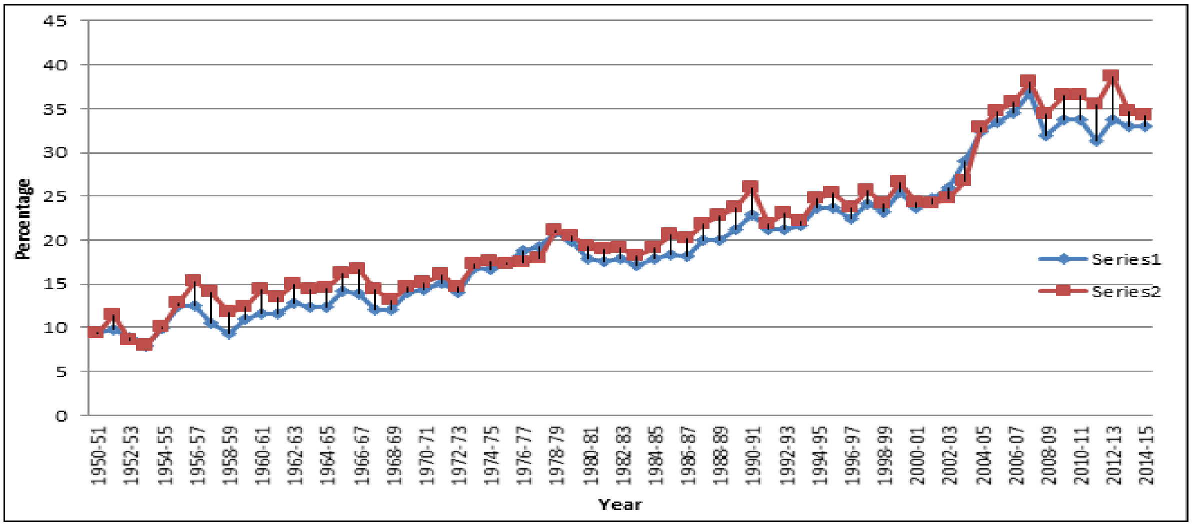

Fig 1: Gross Domestic Saving and Gross Capital Formation as percentage of GDP at current market prices

Over the longer term, India's gross domestic savings and gross domestic capital formation have increased substantially. Both savings and capital formation have grown steadily throughout, rising from low levels of 9.5 percent of GDP during 1950s to 22.9 percent ranges in the 1990s. The national savings rate surged further to 29 percent during 2000-04, buoyed by inflow of remittances. Gross domestic savings rose to 33.4 percent of GDP in 2005-06 from 32.4 percent in 2004-05 and further 36.8 percent of GDP in 2007-08. Domestic savings and capital formation rates reached highs during 2007-08. But it decrease upto 33.0 percent of GDP in 2014-15.

The increase in saving, before the global financial crisis was driven by higher private corporate and household savings. Due to higher savings rate as well as the higher recourse to foreign savings, the gross domestic capital formation increased to 38.1 percent of GDP in 2007-08, a substantial jump from 24.2 percent recorded during 2001-02. It reached 34.2 percent in 2014-15 after reaching highest 38.1 percent of GDP in 2007-08 before financial crisis. (Government of India; 2015). Overall, the average gross domestic savings and gross domestic capital formation was much high than that in 1980. It is clear therefore that the higher growth rate since the 1980s has indeed been supported by a more rapid pace of investment.

5. Measures to Strengthen the Economy

India's growth performance has been robust, especially for a democracy. This has been backed up by policy reforms that have made India more open to flows of goods and capital and have reduced the size of the public sector, both in micro-efficiency and macro-fiscal terms. Yet, there are serious challenges that might impede further rapid progress. These long - standing challenges can be classified as an ambivalence about property rights and the private sector, deficiencies in state capacity, especially in delivering essential services, and inefficient redistribution (Economic Survey; 2017) [6]. Suggestions to maintain the potential growth rate of the economy are as follows

1. Promote macroeconomic stability; competition; good regulatory policies; legal rules and procedures conducive to entrepreneurship and risk-taking.
2. There is need of raising the rate of domestic savings beyond 32 percent of GDP, especially by reducing government dis-savings at the central and state levels. The burden can be reduced by reducing non-developmental expenditure, reducing external loan and internal subsidies, reforms in tax structure and strengthening incentives for savings.
3. There is need for larger amount of investment in infrastructure, which reduces the cost of industry both in public and private sector.
4. There is a need for controling inflation which can leads social unrest in the economy.
5. We need to pay greater attention to larger resources for agriculture, social sectors and rural development programs to increase employment, reduce poverty and create a mass base in support of economic reforms keeping climate change in mind.
6. For the Indian economy to attain growth rate of 9 percent and above, the stagnation in production of major crops and agriculture investment needs to be reversed.
7. We need to expand access to primary and secondary education and improve quality of the education by allocating more funds and basic infrastructure for schools and institutions.
8. To increase the productivity of manufacturing superior inputs, ideas, and technology must use by domestic firms. The increased competition will improve efficiency and profits of the firms. The increased productivity of the firms also encourages employment from the less productive agriculture sector to more productive sectors.

6. Conclusion

India has come a long way in terms of economic performance and reforms through Five Years Plans. But there is still a journey ahead to achieve both dynamism and social justice with policies. One tentative conclusion is that completing this journey will require a further evolution in the underlying economic vision across the political spectrum through all over development. Planning Commission played very important role in the five year plan in India. The objective of India's development strategy has been to establish a socialistic pattern of society through economic growth with self-reliance, social justice and alleviation of poverty. These objectives were to be achieved within a democratic political framework using the mechanism of a mixed economy where both public and private sectors co-exist. India initiated planning for national economic development with the establishment of the Planning Commission. India's high growth rate since 2003 represents a structural increase rather than simply upturn. India has more than one billion population. It has an abundant labour supply, but there is need to increase the capital accumulation. It is well positioned to reap the benefit of favourable demographic, including an urbanization bonus. Growth acceleration achieved during the last 26 years has created the condition for India's take off into the orbit of high growth.

The new institution may also leads to develop the economy in a high growth path. It would complete all the plan and policies which left during the planning period. The Government tries to change the path from five years plans to policies through NITI Aayog. It is not the substitution of Planning Commission but complementary. Indian economy has changed a lot over the past 70 years. Over the next 40 years the changes could be dramatic. If things go right, the Indian economy could become an important source of growth to the world economy. We need economically sensible, internally consistent and provide a clear picture and policies which create confidence in investors. Indian economy has the potential to have the fastest growth over the next 30 and 40 years. According to Goldman Sachs (2003), the Indian economy GDP potential could be more than 46.03 percent in 2050 as comparison to 2004-05.

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