Development Challenges in the 12th Five Year Plan

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India adopted the planning process way back in 1950. With the exception of a few years where due to exceptional economic difficulties there was an interruption in the sequence of the five year plans, this economy has operated continuously within the broad framework of the five year planning process.

We should not forget how meagre the economic basis was, on which the foundation of a modern industrial economy was sought to be built. In 1950/51 the investment and savings rates of the economy amounted to less than 9 per cent of GDP. The growth rate of GDP in 1951/52 was 2.3 per cent and the increase in per capita income a mere 0.7 per cent. It was clear that if this economy had to modernize we would have to be able to garner more domestic savings, push investment up and achieve a faster pace of growth. The domestic resources constraint was compounded by a severe shortage of foreign exchange. Hence, we had what came to be called the two-gap problem: A shortage of domestic savings combined with a severe foreign exchange availability constraint. At the time that the first few five year plans were written a target of achieving an investment rate of 20 per cent of GDP was thought of being a desirable end-state.

Things have come a very long way since. Investment and domestic savings rates that had been stuck at around 18-20 per cent of GDP from the late seventies to the end of the eighties, went up to 23-25 per cent in the nineties attendant on the beginning of the economic reforms in 1991. The big breakout however came around 2004. The savings rate rose from 26 per cent of GDP in 2002/03 to 37 per cent in 2007/08 - the year immediately preceding the global crisis. The investment rate shot up from 25 per cent in 2002/03 to 33 per cent in 2004/05 and then to 38 per cent in 2007/08. In the process, the pace of expansion of the Indian economy climbed from around 5 per cent in the eighties to around 6-7 per cent in the nineties, to over 9 per cent from 2005/06 onwards. Despite the difficult conditions of the crisis and post-crisis years, the Indian economy has averaged 7-8.5 per cent growth. With population growth slowing, the pace of increase in per capita incomes has risen by an order of magnitude - from less than 1 per cent per annum in the First Plan to 6.7 per cent per annum in the Eleventh Plan.

Evolving Role of the Planning Commission

In this process of expansion and growing maturity of the Indian economy, there has been a great alteration in the role of the Planning Commission. In the early years, the level of private enterprise was limited as was the total availability of investible resources and of course of foreign exchange.

In these conditions, with very scarce resources, the Planning Commission played a pronounced allocative role. Further, the engagement of the Commission was mostly relating to the creation of fixed assets.

Though the Indian planning system was not a comprehensive one for the economy as a whole – being comprehensive for the public sector and indicative for the private sector – in effect the predominant role of public sector investments made the Plan have a very large role in aggregate investment activity. This compounded with the institution of industrial licensing and controls over allocation of financial resources, including foreign exchange, made the economy far more subject to the Plan, its framework and priorities than it may have been intended to.

India had been a major trading nation for millennia. In 1948, India accounted for 2.2 per cent of world merchandise exports. By 1963 this share had declined to 1.0 per cent and then to 0.5 per cent by 1973 – where it stayed stuck till the onset of economic reforms. In the same period (1948 to 1973) the share of world

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exports from Germany rose from 1.4 to 11.7 per cent and that from Japan increased from 0.4 to 6.4 per cent.

The reason for India losing its competitive position in world exports and then failing to participate in the expansion of manufactured exports from the sixties onwards can perhaps be traced to the rigidity that generally characterizes large centralized decision making systems – like national planning. The export pessimism and mistrust of market processes that had characterized an important stream of post Second World War economic thinking got embedded into the process of planning – not consciously but reflexively.

One must mention that over the past two decades our share of global merchandise exports has increased to 1.3 per cent in 2009 and it is estimated to be about 1.5 per cent presently. In comparison China accounts for about 10 per cent of global exports and Germany a little over 9 per cent.

Since the economic reforms of the nineties, the Plan process has come to have far less of an allocative role. The structure of the economy and the evolution of financial markets have altered the basic setting of the capital allocation process. The qualitative improvement in the external payments situation has generalized and democratised access to foreign exchange and overseas capital markets. Indeed in the financial resources that flow through the plan, a relatively small component now goes to fund the creation of capital assets.

This is even as the amount of funds that pass through the plan process has continued to increase. In 2011/12 the total size of the Central Plan was Rs 5.9 lakh crore, of which Rs 2.6 lakh crore was Internal & Extra Budgetary Resources (IEBR) and the balance of Rs 3.3 lakh crore came from the Gross Budgetary Support (GBS) in the year's Union Budget. As a proportion of GDP the size of the Central Plan was 6.6 per cent in 2011/12. In the First Plan the average size of the annual plan was little over Rs 500 crore and accounted for just over 5 per cent of GDP. The Second Plan, which was also the most ambitious in terms of its objectives, eventually saw an average plan spend (approximately Rs 900 crore per year) of about 6.2 per cent of GDP. Thus, not only has the absolute value of the spending increased dramatically, but the proportion of GDP that went into the Plan has actually been slightly higher.

In the Second Plan about 80 per cent of total spending was supposed to be in the creation of fixed assets and the social sector was allocated about one fifth of total funding. In the more recent period, the importance of the social sector has increased dramatically.

Altered Scope and Focus of the Planning Commission

Increasingly the investment in capital asset creation in the economy has been outside of the Plan – coming from the private sector. The largest chunk of public sector capital asset creation has been funded from its own resources – retained earnings and through their access to capital markets – that is, the IEBR which accounted for 44 per cent of the Central Plan size in 2011/12.

Of the funds that go through the GBS, the bulk of it now flows to the social sector – education, health and rural development. While a significant part of the latter do result in capital assets – such as rural roads built under the PMGSY – this is a class of expenditure that the market would not have provided on its own since there are no financial returns that can be captured, but there are large economic and social externalities that are of great value to the economy as a whole and to the people who directly benefit from the increased connectivity. This is also the case with expenditures on other flagship programmes such as drinking water, preventive health care, child & maternal nutrition, mid day meal programme and the like. From being the minor component in the Plan, social and rural infrastructure has come to occupy the centrepiece in the Plan today – especially in that component that is funded from the Union Budget through the Gross Budgetary Support (GBS).

The Planning process today thus takes into account the fact that by and large most of the economic capital asset creation will be done by Indian business – whether in the private or in the public sector along commercial lines. However, there are two important areas where the Planning Commission can and must play an important role. First is in the realm of the social sector. Second in catalyzing a class of economic asset creation that would not happen without government intervention. This includes rural infrastructure – roads, irrigation, drinking water, sanitation, electrification etc. It also includes areas where the government by making available small capital grants can facilitate asset creation by the private sector – as in the case of viability gap funding for highways and other large infrastructure projects.

The social sector – health and education – has legitimately come to occupy the central focus for the Twelfth Plan. It is often said – and correctly so – that India has the advantage of a relatively young population. However, this can only become a meaningful advantage if we ensure that their health and educational attainments are satisfactory. An unacceptably large proportion of our children show signs of malnourishment – most commonly the combined impact of water-borne chronic diseases and poor nutrition of both mother and child. In the Eleventh Plan many initiatives on health care were taken up. The Integrated Child Development Service (ICDS) is being restructured to equip the thousands of *anganwadis* that have been set up to become more effective instruments to achieve better nutritional outcomes amongst children, adolescent girls and young mothers.

Progress has been made with vaccination and we should be able to reach near complete vaccination coverage by the end of the Twelfth Plan. The past few years has seen a massive increase in institutional delivery and antenatal check-ups, leading to a distinct fall in maternal mortality. There is yet considerable ground that needs to be covered in reducing maternal mortality, especially in parts of northern and central India.

Male child preference has skewed the gender composition at birth – as revealed by the Census of 2011. The female to male ratio in children up to 6 years of age has worsened to 914 from 927 in 2001. Although there has been some improvement in the worst affected States of Punjab and Haryana[1], there has been deterioration in several other Northern and Central Indian States. Sustained awareness campaigns have to be combined with regulatory disincentive of medical malpractice to bring a change in this shameful situation.

Priorities for the Twelfth Plan (2012"2017)

The Twelfth Plan has a clear set of priorities. In the economic domain, the first is to take the task of infrastructure creation forward. This includes power generation, transmission and distribution. Highway and other road construction. Development of railways and urban mass transit. Ocean and airports. Coal and hydrocarbon exploration and production. Nuclear energy. Improving energy efficiency and the promotion of new technologies, including renewable energy. Physical infrastructure is the cornerstone and provides us with the material wherewithal to build a modern, healthy, educated and sustainable society.

The second major priority is to ensure that water is appropriately managed – from harvesting and impounding to its use in various applications and finally to its recycling. Some 80 per cent of the water that is used in this country is in the irrigation sector. Yet only 42 per cent of our arable land has an assured source of irrigation. Water scarcity is common across the country. This situation can be and must be altered. On average we receive nearly one metre of rainfall across the country and even the arid regions get 400 mm and more of annual rainfall. Integrated mapping and management of our aquifers is possible and will be

done. Changes will be made in the way we use our water: Move from flood irrigation towards sprinkler and drip. In urban areas recycling will be encouraged. By these means we will be able to ensure sufficiency of water and perhaps extend the scope of irrigation somewhat.

The next priority is to raise farm output through productivity gains, better soil nutrition and water management, emphasis on rainfed agriculture and improved connectivity and logistics to evacuate farm products to urban markets.

The thrust in the Twelfth Plan will be on health and education. This is not only a resource question but its success is dependant on the quality and coverage of the delivery mechanism. On the one hand the effort is to make the process more participatory and accountable and on the other to technically and fiscally equip it to enable it to deliver. The experience in the Eleventh Plan has been mixed. Some schemes have worked well in some places and not done well in others. People do matter but design, oversight and attention are equally critical. In education, there is a clear imperative to improve the quality of education that is being imparted. The activities of the Twelfth Plan will have the benefit of the learning gained during the Eleventh.

Manufacturing will have to grow at a more accelerated pace than it has in the past few years. Not only has manufacturing to grow in order to provide us with the goods that we will need at elevated levels of income, but good quality blue collar jobs can only come from manufacturing and associated activities. Increasingly large numbers of our youth will be looking for such jobs and we must plan to create the conditions that will generate such employment. Government is also committed to provide young people with skill training to enable them to more easily fit into the prospective employment.

Challenges of Urbanization

The urban population of this country has risen to about 32 per cent. However, a large part of our population are not truly rural, but live in peri-urban locations and are often engaged in livelihoods that are urban centric. Over the coming decades our urban population will rise further and we need to build the urban municipal infrastructure – drinking water, roads, sewage & sanitation, housing, schools & colleges, hospitals, other service amenities and urban mass transit – that can cater to this enlarge urban population. We should try and encourage more rapid expansion in our medium sized and smaller towns so that they are better equipped to support a larger population and the load does not fall disproportionately on our metropolitan and larger cities.

Science & technology is the nerve centre of a modern society. S&T has to be encouraged more aggressively in our educational system and in our research establishment and in its organic link with society – farming, industry, transportation and services.

The big challenge in the coming years is how to make the system work in a more efficient, transparent and imaginative fashion. There are three elements in this. The first is the challenge of improving the quality of governance. The second is to strengthen scheme designs and make the process more participatory. The third is guard against the ingress of rigidity in the design of the schemes and its application and always to keep in mind local conditions and needs so as to build in strong adaptive functionality.

To make all of this to work in a harmonious fashion, the process of growth must pay adequate attention to the protection of the environment and to an outcome where the growth process is socially inclusive. This process is expected to occur in a framework where the economy is slated to register an average growth rate of 9 per cent over the course of the Plan.

It is true that international conditions are difficult today, but they will not remain so forever. Moreover, in targeting a growth rate of 9 per cent, we are first,

encouraged by the fact that we will register over 8 per cent growth in the Eleventh Plan despite the global crisis. Second, we feel that by taking appropriate balancing measures we can still maintain a fairly strong pace of investment and therefore average growth. In fact, we must – in order to meet the aspirations of today's youth we " strive to keep the pace of investment, employment and income growth rapid and sustained.

To the extent that we succeed in our quest for more rapid, inclusive and sustainable economic growth we will find ourselves better placed in the comity of nations. In 2000, the share of the advanced economies in world GDP was 80 per cent. This has fallen to 66 per cent in 2010. The other side of the medal has been the share of developing economies which has increased from 20 per cent in 2000 to 34 per cent in 2010.

It is likely that by 2025, if not some years earlier, this split will become 50:50. India's share of world GDP has gone up from 1.5 per cent in 2000 to 2.6 per cent in 2010. What happens in India vis-à-vis the other developing economies in the medium term and how we position ourselves in the altered economic hierarchy in a decade or two is in our hands. We must not allow the moment to slip, at the very threshold of the most momentous shift in the world's economic polarity in the past three centuries.

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