Chapter - 6

Genesis of Five Year Plans
GENESIS OF FIVE YEAR PLANS

This chapter traces the origin of Five-Year Plans in India. The Constitution of the Planning Commission, Planning Machinery, Plan outlay and financial allocations are also described in this chapter.

India was predominantly agricultural country suffered from a shortage of food supply. The problem was not of the present research period but could be traced to the 1920’s and 30’s. Food shortage which so far used to be patiently and mutely put up with by the rural population had now been affecting the urban population which was very vocal. During the last decade of the economic position of Indian farmers seemed to have improved generally as a result of which they had been consuming a little more food than before, their holding capacity had also increased.

Consequently the marketable surplus of food grains had dwindled. In any case the problem had come to the forefront due to large increases in population. It was against this background that the problem has to be examined.¹

The major problem in agriculture was that of inadequate supply of food grains and essential raw materials in relation to the growing

population, nutrition standards, the impact of urbanization under planning and the need for a rapid rate of growth in industrial development. The problem of food shortage was a chronic one with us. It was examined from several angles represented by several groups of individuals like the farmers, the traders, the consumers and the Government.

A genuine attempt at solution aimed at integrating the interest of the individual with that of the community. The solution could not, therefore, be either easy or quick. Nevertheless one would feel satisfied if the approach to the problem was realistic and the efforts put in are in the right direction.  

For some years past, the people of India had been conscious of the importance of planned development as a means of raising the country’s standard of living. This consciousness found expression in the appointment of the National Planning Committee by the Indian National Congress. The integration of the former States with the rest of the country and the emergence of new geographical and economic facts, a fresh assessment of the financial and other resources and of the essential conditions of progress had become necessary.

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2 Ibid.
Moreover, inflationary pressures inherited from the war, balance of payment difficulties, the influx into India of several million persons displaced from their homes and occupations, deficiencies in the country’s food supply aggravated by partition under succession of indifferent harvests, and dislocation of supplies of certain essential raw-materials had placed the economy under a severe strain.

The need for comprehensive planning based on careful upraise of resources and on an adjective analysis all the relevant economic factors, had become imperative. These purposes could best be achieved through an organisation free from the burden of the day to day administration, but in constant touch with the Government at the highest policy level.

Accordingly as announced by the Finance Minister in his budget speech on the 28th February, 1950, the Government had decided to set up a Planning Commission.4

**Genesis of the Planning Commission:**

Generally, Planning means the systematic utilization of the available resources at a progressive rate so as to secure an increase in output, national divided, employment and social welfare of the people.

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The problem of development of an under-developed country was that of utilizing more effectively the potential resources available to the community and it was this which involves ‘Economic Planning’. The term ‘Planning’ was wider in concept than the term ‘Plan’.

There were good examples in history of countries which had formal paper plans without planning. Brazil’s ‘PLANO TRIENAL’, ‘Ghana’s Seven-Years Plan’ and ‘Plans of Burma’ and Indonesia were plans without planning. Hence the plans were either partially successful or abandoned, or used for window-dressing only with the help of foreign aid.

The Soviet Planning Commission formulates planning from the top as well as from the bottom and the planning procedures was not ‘genetic’ as in capitalist countries, but ‘technological’. It consisted in accepting in certain comprehensive objectives and then talking effective measures for the achievement of objectives and planning was not only economic planning but ‘Socio-Economic Planning’. In addition to production targets, programmes of education, public health and cultural development were included.

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Planning Machinery in India:

Planning requires adequate and efficient machinery. This was inevitable from the nature of planning and since planning in agriculture was a novel experiment in the country, its success was bound to depend on the efficacy of the machinery set up.

The nature of the planning machinery in India and the different planning procedures and techniques which had evolved in the course of fifteen years had been largely determined by the fact that India was a federal democratic State, which a Mixed Economy striving for a progressively socialistic pattern of society.

In the machinery and procedure of planning, the Planning Commission occupied a pivotal position. Its main functions were advisory and co-ordinating. It was a via media between an administrative department which was too closely involved in day-to-day problems.

The Planning Commission was a multi member body including full-time members who were eminent public men, administrators or technical experts, as well as some part-time members who were important Cabinet Ministers.  

The Prime Minister of India had been Chairman of the Planning Commission since its inception. The Minister for Finance was the member incharge of Finance in the Commission in an ex-officio capacity. The arrangements ensured co-ordination between the Commission and the Central Ministries.

The Commission in its day-to-day work functioned through a series of divisions and sections each headed by a senior officer. Apart from the Central Ministries, there were two official organisations viz., the Reserve Bank of India and the Central Statistical Organisation which were closely associated with the work of the Commission.9

In its relation with the States, and Planning Commission deals with the Chief Ministers on the matters of policy, with State Planning Departments nor the affecting detailed administrative co-ordination. Also sought to be achieved through the National Development Council consisted the Prime Minister, Chief Ministers of the State and Members of the Commission. Advisers were also instrumental in providing an effective link between the Commission and the different State Governments.10

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At the State level there was a Planning Department generally directly under the Chief Minister. The plan formulated by it was put up to the Council of Ministers of the State.

**First Five-Year Plan (1951-56):**

The Planning Commission presented the draft First Five Year Plan in July 1951. The final report was published in December 1952. The immediate objectives of the First Plan were as follows.

1. It aimed at correcting the disequilibrium in the economy caused by the war and the partition of the country in 1947.\(^\text{11}\)

2. It aimed at increasing the production in the agricultural sector in order to solve the food crisis.

3. It aimed at combating the inflationary tendencies in the economy.

4. It aimed at building economic over heads such as a net work of roadways, replacement of the rolling stock in the railways, and construction of irrigation and hydro - electric works.

5. It aimed at a initiating a pattern of economy called ‘Mixed Economy’ based on welfare with private and public sectors functioning side by side as integral parts of a single organism.

(6) It aimed at the reduction of inequalities of income and charging socio-economic framework progressively by democratic methods with the ambit of the constitution.\textsuperscript{12}

\textbf{Plan Outlay:}

For the purpose of Planning, the economy was divided into two sectors the public sector and the private sector. The formed comprised of enterprises owned, controlled and operated by the Central and State Governments.

The private sector consisted of enterprise in industry, trade and business owned. In the First Plan the private sector was much bigger than the public sector. The Government laid down specific targets of outlay and also assumed the financial responsibility for their fulfillment in the public sector.

The plan proposed a total outlay of Rs.2,069 crores during the plan period by the Central and State Governments. Finally the amount was increased to Rs.2,356 crores. But actual expenditure incurred in the public sector amounted to Rs.1,960 crores.\textsuperscript{13}

Table 6-1

SECTORAL OUTLAYS DURING THE PLANS OF INDIA 1951-67
(Rs. CRORES)

<table>
<thead>
<tr>
<th>Departments</th>
<th>I Plan</th>
<th>II Plan</th>
<th>III Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture and Irrigation</td>
<td>600 (31)</td>
<td>950 (20)</td>
<td>1,750 (21)</td>
</tr>
<tr>
<td>Power</td>
<td>260 (13)</td>
<td>440 (10)</td>
<td>1,250 (14)</td>
</tr>
<tr>
<td>Industry</td>
<td>120 (6)</td>
<td>1080 (24)</td>
<td>1,970 (23)</td>
</tr>
<tr>
<td>Transport and Communications</td>
<td>520 (27)</td>
<td>1,300 (28)</td>
<td>2,120 (25)</td>
</tr>
<tr>
<td>Social Services</td>
<td>460 (22)</td>
<td>830 (18)</td>
<td>1,490 (17)</td>
</tr>
<tr>
<td>Total</td>
<td>1,960 (100)</td>
<td>4,600 (100)</td>
<td>8,580 (100)</td>
</tr>
</tbody>
</table>

Note: Figures in brackets are percentages of total in the respective Plan.


SECTORAL OUTLAYS DURING THE PLANS OF INDIA 1951-67
(Rs. CRORES)
For strengthening the rural base and to solve the food problem high priority was given to agriculture and irrigation and only low priority was given to industries, especially large scale industries. The First Plan gave the highest priority to agriculture and an amount of Rs.1,001 crores was meant for agriculture, community development, irrigation and power projects. This Rs.1,001 crores was 42 per cent of the total Plan provision.14

Finance for the Plan:

The most vital factor in planning and its successful completion in the supply of finance without financial planning, development plans could not bear fruit. The First Plan depended up on savings from current revenues of Central and State Governments and the Indian Railways, loans and savings of the people in India and foreign capital.

Achievements:

India’s First Five Year Plan was a brave effort at solving the country’s economic problems. The First Plan termed as the best plan as the success achieved in many fields was remarkable. Although the target was only an 11 per cent increase, the actual increase was by 18 per cent.

From Rs.8,850 crores the national income increased to Rs.10,480 crores by the end of the First Plan. Food production rose from 52.2 million tons in 1951-52 to 65.8 million tons in 1955-56 whereas the plan target was on 61.6 million tons.\textsuperscript{15}

The planning commission did not make proper assessment of the financial resources. The outlay of the plan was frequently revised and changed. Another drawback was its excessive emphasis on long term irrigation projects. The plan could not solve the employment situation. Lastly, the plan did not setup an organization to enforce the Plan.

**Second Five-Year Plan (1956-61):**

The second Five-Year Plan covering the period from 1956-57 to 1960-61 was bigger and more ambitious than the First Plan. The objectives of the Second Plan were: (i) A sizable increase in national income so as to raise the levelingization of the country with particular emphasis on the development of basic and key industries.\textsuperscript{16} (ii) A large expansion of employment opportunities and (iii) Reduction of inequalities of income and even distribution of economic power.


### TABLE 6-2

**FINANCE FOR THE FIVE-YEAR PLANS IN INDIA 1951-66**

(Rs. in Crores)

<table>
<thead>
<tr>
<th>Source</th>
<th>1951-56</th>
<th>1956-60</th>
<th>1961-66</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxation and Surpluses of Railway</td>
<td>752</td>
<td>1,152</td>
<td>3,825</td>
</tr>
<tr>
<td>Market Barrowings</td>
<td>205</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small Savings and Unfunded Debt</td>
<td>304</td>
<td>1,410</td>
<td>2,140</td>
</tr>
<tr>
<td>Other Capital Receipts</td>
<td>91</td>
<td></td>
<td></td>
</tr>
<tr>
<td>External Assistance</td>
<td>188</td>
<td>1,090</td>
<td>2,455</td>
</tr>
<tr>
<td>Deficit Financing</td>
<td>420</td>
<td>948</td>
<td>1,150</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,960</strong></td>
<td><strong>4,600</strong></td>
<td><strong>9,570</strong></td>
</tr>
</tbody>
</table>


**FINANCE FOR THE FIVE-YEAR PLANS IN INDIA 1951-66**

(Rs. in Crores)
Plan Outlay:

The main emphasis of the Second Plan was on industry and mining which accounted for 18.5 per cent of the total outlay against only 7.6 per cent in the First Plan.

In order to achieve the objectives of the Second Plan i.e., to increase the National Income by 25 per cent during the plan period, it was considered necessary to make a total net investment of Rs.6,200 crores over a period of five net investment of Rs.3100 crores in the First Plan.17

Out of this, it was proposed to invest Rs.3800 crores in the public sector through private investment. Including the current outlay in the public sector amounted to Rs.4800 crores corresponding to a total net investment of Rs.6,200 crores under the Second Plan. The distribution of the total outlay was Rs.4,800 crores.18

Finance for the Plan:

The expenditure of Rs.4,600 crores was financed upto Rs.2562 crores from budgetary sources, saving and additional taxation and loans, and

17. P.C.Jain. op.cit.. p.33.
18. Ibid..
Rs.1090 crores by external assistance, and 948 crores through deficit financing.\textsuperscript{19}

**Achievements:**

The National Income of India increased by 20 per cent as against the plan target of 25 per cent and the per capita income increased by 8 per cent.\textsuperscript{20} Food production increased from 65.0 million tons to 75.0 million tons, an increase of 15 per cent. Though there was an increase in total production, the plan targets could not be reached due to the failure of the monsoon.\textsuperscript{21}

Development and expansion of industries are the highlights of this plan. Although the second plan corrected the mistakes of the first plan and gave importance to industrial development, it neglected the industries producing consumer goods. The Second Plan miserably failed in holding the price line in an effective manner, during the period, “living standards deteriorated; economic inequalities undefined”.

\textsuperscript{19} Resources for the Third Five Year Plan: A Research Study and Analysis. The Indian Merchant’s Chamber, Bombay. 1961. p.48.
\textsuperscript{20} Ibid.
\textsuperscript{21} Ibid.
Third Five-Year Plan (1961-66):

The Third Plan was formulated to carry out the tasks set out in the Second Plan. The working of the two Plans had shown that the main limiting factor in Indian economic development was agricultural production. The Third Plan emphasized production in agriculture as well as key industries.

A team of United States experts had recommended to the Government of India that food production could be given top priority in the Third Five-Year Plan so that the rate of additional production might be trembled to meet an impending crisis. The experts estimated that by the end of the Third Plan, India will have a total population of 48 crores, an increase of 8 crores on the present figure.22

Plan Outlay:

The total outlay of the Third Plan was Rs.11,600 crores of this Rs.7,500 crores represented the outlay in the public sector and Rs.4,100 crores in the private sector. This plan proposed to raise Rs.1,710 crores by way of additional taxation. The Planning Commission preferred indirect taxation to deflect financing.23

Achievements:

As against the 6 per cent growth envisaged in the Third Plan, the annual rate of increase in national income was the first two years was estimated at only 2.5 per cent largely on account of a set back in agricultural production.\(^{24}\)

The largest shortfall was in the agricultural sector. At the commencement of Third Plan in 1960-61, food production touched 82 million tons. The output of commercial crops, chemical fertilizers etc, was behind the targets.\(^{25}\)

The rate of growth of industrial production had not been satisfactory. The Third Plan aimed at an increase of 30 per cent in agricultural production and 70 per cent in industrial production; in most of the industries the industrial targets could not be achieved even by the 50 per cent.\(^{26}\)

The Third Plan in general presented a grim picture of the State of the Indian economy and also underlined the total failure of planning efforts. Success in Planning in our Country largely depended on success


\(^{25}\) Ibid.

in agricultural production unfortunately the agricultural front miserably failed, not only due to poor weather conditions and monsoon failures, but also due to the unsatisfactory nature of the State Governments to execute and implement the much desired land reform measures.

**Annual Plans (1966-1967):**

The Indian economy faced many difficulties during the Third Plan. The Third Plan was not only a failure, but the little success recorded by the previous Plans was wiped out by the Third Plan. The insurmountable difficulties, the inflationary spiral, meager local resources and the foreign exchange crisis forced the planners to had a ‘Plan Holiday’ without taking the Fourth Plan in 1966-67. Instead it was decided to introduce an Annual Plans in 1966-67, 1967-68 and 1968-69.27

The chief feature of the Annual Plans was their moderate size and small outlay within the limits of available resources. During the three Annual Plans the total outlay was to the extent of Rs.6,626 crores, Rs.2,165 Crores in 1966-67 plan, Rs.2,085 crores in 1967-68 plan and Rs.2,376 Crores in 1968-69 plan.28

28. Ibid.
Due to considerable strain in the economy financing of Annual Plans was very difficult. The receipts from taxes were very low and higher cost of Government purchases and the rupee cost of interest on foreign loans due to devaluation made it extremely difficult to find resources internally and externally.

Achievements:

The Annual Plan of 1966-67 recorded short falls in many physical targets. The food grains production, estimated at 97 million tons, recorded only 76 million tons. Additional irrigation potential was achieved for 5.5 million acres as against the target of 6.5 million acres. In the industrial sector, too, the targets were not reached. The Annual Plan of 1966-67 had to face industrial recession and this aggravated the problem of unemployment.29

Fortunately, during 1967-68, the national income was higher by 8.9 per cent and the industrial production also recorded a moderate increase. In 1968-69, there were short falls in agricultural and industrial sector, food production was only 98 million tons as against the plan target of 102 million tons.30

Agricultural Development under the Five-Year Plans:

Inspite of its importance, agriculture in India was in a hopeless condition of stagnation and neglect, partly because of the British masters who cared more for commerce and consolidation of their administrations rather than economic uplift and partly because of the socio-economic structure of the country. Little attention was paid by the Government to the various suggestions of the Famine Commissions of 1880, 1898, and 1902 and also the Irrigation Commission of 1903 towards the improvement of agriculture in the country.

It was only after the attainment of independence a marked awareness of the need of agricultural development was felt. So steps were taken up to make systematic and empirical study of the problems of agriculture and measures for solving the problems.

The problems were; (i) Excessive population depending on land giving rise to low man-land rations (ii) Low productivity of land and low level of income from farming operations providing only subsistence income to the farmer and his family. (iii) Concentration of land holdings in the hands of a few rich landlord even after making land reforms. (iv) Mass indebtedness of the rural families. 31

Agriculture in the First Five-Year Plan:

The situation prevailing in the rural sector prior to the First Plan was much disquieting. The aftermath of the Second World War created an acute food shortage in the country. Agricultural production was at its low level and the farmers were very heavily indebted. The partition of the country still aggravated the situation. India lost the supply of 7.5 lakh tons of food grains realized from Sindh, Punjab and East Bengal which passed on to the share of Pakistan.\(^{32}\)

The problem of feeding the refugees from Pakistan was staggering. The outbreak of the Korean War in 1950 and the bad season in 1950-51 still further contributed to scarcity and shortage of food supply. India had to depend on imported food which was of the order of 25 lakh tons.\(^{33}\)

Under these circumstances the planning commission laid greater emphasis on the programme of agricultural development to strengthen the base of the rural economy. So the First Five-Year Plan (1951-56) was launched primarily as an agricultural plan with the objective of correcting the disequilibrium in the economy and initiating a process of development, particularly in the field of agriculture.\(^{34}\)

\(^{32}\) Ibid..  
\(^{33}\) Planning Commission. Review of the First Five Year Plan. May 1957. p.3.  
For achieving the targets of the plan in the field of agriculture, irrigational facilities were extended to 14 million acres of land and 12 lakhs acres of land were reclaimed and brought under plough. As result of planning and favourable seasons, agricultural production increased and in many cases the plan targets were exceeded particularly in food grains and oil seeds.

The agricultural plan of 1951-56 was fairly successful as the output of all agricultural commodities went up by 22.2 per cent giving a growth rate of 4.2 per cent. The output of food grains went up by 30 per cent. The impact of the First Plan on the economy was very favourable.35

Import of food grains was considerably reduced from 4.73 million tons in 1951 to 0.59 million tons in 1955 and in most of the agricultural commodities, India became almost self sufficient. The situation was helpful to curb inflation and stabilize the economy and create possibilities for further development.36

**Agriculture in the Second Plan: (1956-60)**

Out of a total expenditure of Rs.4,600 crores during the plan period, a sum of Rs. 950 crores was spent on agriculture.

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36. Ibid.
This was only 20 per cent of the total outlay as against 31 per cent in the First Plan of the Rs.950 crores.  

The Second Plan aimed at a ‘diversified agricultural economy’. During this period, 16 million acres were extended irrigational facilities and agricultural production was stepped up considerably. Inspite of these the actual results were not as visualized by the Planning Commission. Though agricultural production in general increased over the First Plan period, in many case the targets of the Second Plan could not be achieved and in some cases the achievements were far below the targets.

However, there was an increase of 27 per cent in the overall agricultural production. The poor response of agriculture during the second plan had a very baneful effect on the economy and created a number of difficulties and problems. This bitter experience of the plan gave a rude shock to the Planning Commission which realized the main limiting factor in the progress of the Indian economy was agricultural production.  

Agriculture in the Third Plan: (1961-66)

Self sufficiency in food and increased agricultural production were made the main objectives of the Third Plan. The plan aimed at rising
overall agricultural production by 30 per cent. This was expected to be achieved through extension of irrigation facilities, soil conservation, dry farming, land reclamation, better inputs and improved techniques.

In the initial years of the Third Plan (1962) India was attacked by China, and in the closing years of the plan (1965), Pakistan invaded India. Consequently the resources of the country had to suit the national emergency. Added to these adverse conditions.39

The Third Plan period, could not enjoy good monsoons and seasons. From the point of agricultural production except the year 1964-65, which was considered to be the best year other years were very bad. Drought conditions and poor agricultural production adversely affected the war torn economy. Hence the targets in agricultural production could not be achieved.

Against the plan target of 100 million tons, the output of food grains amounted to only 89 million ton in 1964-65 and 72.3 million tons in 1965-66. As against the target of 30 per cent increase, the food grains productions increased barely by 10 per cent. The production of oilseeds came down to 6.4 million tons at the end of the plan period (1965-66) as against the target of 9.8 million tons.40

### Table -6.3

**AGRICULTURAL PRODUCTION OF INDIA 1950-67**

<table>
<thead>
<tr>
<th>S.No</th>
<th>Crops</th>
<th>1950-51</th>
<th>1960-61</th>
<th>1966-67</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Tea</td>
<td>103.8</td>
<td>120.9</td>
<td>137.9</td>
</tr>
<tr>
<td>2.</td>
<td>Jute</td>
<td>106.3</td>
<td>125.3</td>
<td>135.7</td>
</tr>
<tr>
<td>3.</td>
<td>Cotton</td>
<td>110.7</td>
<td>201.1</td>
<td>176.8</td>
</tr>
<tr>
<td>4.</td>
<td>Sugarcane</td>
<td>113.7</td>
<td>183.9</td>
<td>206</td>
</tr>
<tr>
<td>5.</td>
<td>Oilseeds</td>
<td>98.5</td>
<td>134</td>
<td>126.5</td>
</tr>
<tr>
<td>6.</td>
<td>Foodgrains</td>
<td>90.5</td>
<td>137.1</td>
<td>121.3</td>
</tr>
</tbody>
</table>

Source: The economic times annual publication, Research bureau, 1972, p.35.
The failure of agriculture in the Third Plan led to a sharp increase in food grain prices and the increase in prices was more than 40 percent at the end of the plan. Further, food grains had to be imported, depleting our foreign exchange reserves.41

Agriculture in the Annual Plans:

In the three Annual Plans (1966 to 1969), a sum of Rs.6,757 crores was spent on agriculture which worked out to 24 per cent of the plan outlay. Of this Rs.1,167 crores was spent on agriculture and community development and Rs.457 crores on irrigation.42

Though the conditions were not favourable for agricultural production in the year 1966-67 due to unprecedented and widespread drought. The year 1967-68 was a good one, making a spurt in agricultural production due to the combined effect of favourable weather conditions and the introduction of High Yeilding Variety Programme.43

The plan holiday between the Third Plan and the Fourth Plan was of great significance for Indian agriculture. It was during this Annual Plans period the new agricultural strategy was tried and the era of ‘Green Revolution’ was set in.\textsuperscript{44}

After explaining the origin of Five-Year Plan which was introduced by the then Prime Minister of India, Jawaharlal Nehru to transfer colonial India into modern India, this chapter had described the necessity, execution and implementation of the Five-Year Plan. The attention is now focused on the introduction of the First Five-Year Plan in the Madras State in the next chapter.