

shown a decline from 1.68 to 1.50, which though not very sharp, is significant in the sense that rural areas are receiving relatively better attention (Refer table 10)

However, at the level of the states, sharp variations were observed in terms of urban-rural disparity in HDI. If we classify states on the basis of urban-rural HDI ratio, then States/UTs which show low rural-urban disparity (i.e. less than 1.25) are Kerala, Goa, Pondicherry, Delhi, Andaman & Nicobar islands, Manipur and Lakshadweep. However, states with medium level urban-rural HDI disparity (Between 1.25 to 1.50) are Mizoram, Nagaland, Punjab, Tamil Nadu, Maharashtra, Haryana, Gujarat, Karnataka, West Bengal, Andhra Pradesh and Orissa. In contrast, states with high urban-rural HDI disparity (1.50 & above) were Himachal Pradesh, Sikkim, Jammu & Kashmir, Tripura, Meghalaya, Assam, Rajasthan, Arunachal Pradesh, Madhya Pradesh, Uttar Pradesh and Bihar.



#### 4. PROGRESS OF HUMAN DEVELOPMENT IN INDIA

The basic purpose of planning in India is to widen people's choices and improve the well-being of the people. In this context, human development was the key issue so that people could lead a long and healthy life, they could acquire knowledge, so as to have better vertical mobility in life and last, but not the least, to achieve a decent standard of living of all. It would be, therefore, appropriate to examine the progress of human development in India.

India has been categorised by the *Human Development Report 2007/2008* as a medium human development country. The Human Development Index has risen gradually from 0.406 in 1975 to 0.510 in 1990 and stands at 0.619 in 2005. In fact, it can take quite long for India to cross the mark of 0.8 in HDI to join the rank of high HDI countries.

A major impediment to progress in human development is the very fast growth of population experienced in India. India's population increased from 620.7 million in 1975 to 1,027 million in 2001 giving a growth rate of 2.0 per cent per annum during the period (1975-2001), which is fairly high. It is expected that the growth rate of population during 2000-2015 will come down to 1.3 per cent. This would provide a welcome relief to push forward the process of human development.

Urbanisation is considered to be a factor, which promotes human development. The share of urban population, which was 21.3 per cent in 1975, has reached a level of 27.8 per cent in 2001, but by 2015, urban population would reach the level of 32.2 per cent. In absolute terms, urban population was 285 million in

2001 and would reach a level of 407 million in 2015. This would certainly help to enlarge human development because it has been observed that urban areas are better looked after in terms of education and health facilities.

Another healthy feature of likely demographic transition is the proportion of children or population under age 15, whose proportion stood at 33.7 per cent in 2001 but is likely to decline to 27.7 per cent by 2015. In absolute terms, population under age 15 was 348 million in 2001 and would get reduced to 345 million in 2015. This will imply decreasing population pressures from below in future which would also help in releasing resources to improve human development.

It would be quite useful to consider factors related with the education of the population that are likely to promote human development. The most important factor is adult literacy rate, which was 61.0% in 2005. This implies an adult illiteracy rate of 39 per cent. In absolute terms, 296 million adults were illiterates in 2005. The share of India in the world's illiterate population is 33 per cent. According to the Human Development Report 2001, a total of 854 million persons were illiterate in the world in 1999 and nearly one-third of these were counted for in India. As compared with the total world population, the share of India in world population is only 16.6 per cent. In other words, in the total world population, India's share is one-sixth, but among the world illiterates, her share is one-third. This only underlines the need for strengthening literacy rate still further to reduce adult illiteracy in India. Although evidence of substantial increase in literacy during the decades of the nineties has become evident, still India has a long way to go. Compared to China, which has improved its adult literacy rate to 90.9 per cent in 2005, India lags behind considerably at 61 per cent in this very important area of human development.

Another important indicator is the combined Gross (Primary, Secondary and Tertiary) Enrolment Ratio which was only 61.0 per cent in 2005 in India. China has a gross enrolment ratio of 68.7 per cent in 2007. India is lagging behind at 61 per cent and has to catch up, not only with reference to developed countries, but also with reference to some developing countries like China.

Public expenditure on education as a percent of GNP is considered as an indicator of state policy towards promoting education. This proportion remained unchanged between 1991 and 2002-05 3.8% of GNP was reported as 3.4% for 2006 as per UNDP. According to the Report of the Education Commission (1964), this expenditure should have been raised to 6% of GNP. Although it is nearly four decades now, but the target by the Education Commission has yet to be realised.

The proportion of education expenditure devoted to pre-primary and primary education has marginally increased from 35% in 1985-86 to 38.4% in 2000-

There is a strong need to enrich state-run schools at the primary level so as to bring about a decline in dropout rates. Since the children belonging to upper middle class and affluent sections are now going to the so-called public schools, it should be possible for the state to improve facilities both in terms of human and material resources deployed in state-run primary schools.

The Information Technology revolution has necessitated an increase in the proportion of tertiary students in science, math and engineering to be stepped up. Their proportion was only 20% during 1998-2003 in India. As against this, their proportion in China was 53%. This proportion was about 49 per cent in Russian Federation. India has to bring about a shift to meet the changing demands of the new economy.

So far as youth literacy rate is concerned, it is 76.4% in 2005, but ironically in a majority of medium human development countries, youth literacy rate is above 90 per cent. India has, therefore, to improve its literacy rate among the youth (i.e. population in the age group (15-24).

### Health Indicators

Life expectancy at birth has shown a continuous improvement from 50.7 years during 1970-75 to 66.0 years in 2000-07. However, the probability at birth not surviving to age 40 is 15.5% in 2005-10. India has to improve health facilities as well as nutrition levels so that it can reduce the probability at birth not surviving to age 40. Several medium human development countries have much better survival rates. A few worth mentioning are Philippines, Thailand, Malaysia, Sri Lanka and China.

In this context, it would be relevant that 46% of the children under five were underweight in 2000-06. In absolute terms, 178 million children under five were underweight. The country should support a programme of improving nutrition in poor families to reduce this massive number of underweight children.

Population not using improved water sources was 11% in 2006. This is a very healthy development, but in absolute terms 124 million persons are unable to make use of improved water sources and thus become victims of all kinds of water-borne diseases. Similarly, improved sanitation facilities were not available to 33% of the population in 2004. In absolute terms, 375 million persons were living under insanitary conditions.

It is really distressing that 49% of the Indian population did not have access to essential drugs in 1999. This implies that 527 million persons were without effective medical cover. This reduces the survival rate in India.

The proportion of under-nourished people in India in 2004 was 20%. This implies that 220 million people were under-nourished. This under-nourishment

is primarily due to the existence of poverty. There is a need to strengthen poverty eradication strategies to reduce under-nourishment.

The survival rate has considerably improved in India. In 1970, infant mortality rate per 1,000 live births was 127; it has been brought down to 53 in 2007. These are healthy developments. Likewise, maternal mortality rate per 1,00,000 live births have been brought down to 254 during 1985-2007. Control of diseases and improvement in hospital facilities has contributed to improvements in survival rate.

### Gender-Related Development Indicators

Life expectancy at birth of females in 2005 was 65.3 years, but for males, it was 62.3 years. Comparing with medium human development countries, Indian achievement, though good, is still much lower in relation to Mexico, Venezuela, Russian Federation, Thailand, Philippines, Sri Lanka, Iran, Vietnam, to name a few among them.

Although gap between life expectancy of females and males is very small, but in other gender-related development indicators, this gap is very wide. For instance, adult literacy of females was barely 54.5 per cent as against 76.9 per cent of males in 2007. Similarly, combined Gross Enrolment ratio of females was 57.4 per cent as against 64.3 per cent for males in 2007. Likewise, Estimated Earned Income of females was \$ 1304 as compared with that of males to be \$ 4102 in 2005. This implies that female income was just 32 per cent of male income. Obviously, either females suffered from gender discrimination in wage income or they did not have regular employment and a big proportion was employed as casual labourers or a large proportion of females worked part time. There may be many more factors, but it cannot be denied that females suffered gender bias both in education and employment. Incidentally 10 per cent ministerial positions were held by women.

### Economic Indicators

GDP per capita of India was \$ 3,452 in 2005 (PPP US \$). The average annual growth rate of GDP during 1980-90 was 5.8, it declined to 4.2 per cent during 1990-2005.

However, the measures of inequality of consumption revealed that the share of the poorest 10% in total consumption in 2007 was just 3.6 per cent and that of the richest 10% was 31.1 per cent. Thus, the ratio of consumption between the richest 10% to the poorest 10% was 8.6. Similarly, the poorest 20 per cent shared only 8.1 per cent in total consumption, but the richest 20 per cent shared 45.3 per cent. Thus, the ratio of consumption of the richest 20% to the poorest 20% was 5.6. Compared with medium human development countries,

### Foreign Assistance

A developing country such as India generally finds it difficult to expand its exports; at the same time, it does not like to reduce its imports, lest its rate of growth is reduced. Foreign loans and grants are, therefore, useful and constitute an important source of financing economic growth. But there are two intrinsic disadvantages: (a) lending countries may exert political pressure on the aid-receiving countries, and (b) the debtor country will have to find resources later to pay off interest and the principal. We have examples of developing countries which have been forced to borrow to pay off their annual interest. This is the notorious "debt trap" which India should avoid.

### Deficit Financing

Deficit financing is handy when the Government is unable to raise finances from other sources. So much so, Governments frequently succumb to the temptation of deficit financing; without bothering much about mobilising resources through additional taxation. Deficit financing may be useful too, if adopted in small doses. For, it will raise the money supply in the country and raise the demand for goods and services. In fact, deficit financing does help to activate the economy and increase production, if it is kept within safe limits. However, deficit financing has an inherent danger. Once deficit financing is adopted by the government, it becomes cumulative. With every passing year, the volume of deficit financing increases. By raising money supply, deficit financing raises prices. Much of the inflationary pressure in India in recent years is due directly to deficit financing and it is for this reason that taxation is preferred to deficit financing.

A consideration of the various measures of raising resources for planned development clearly points out that the Government should avoid deficit financing at all costs, reduce dependence on foreign assistance to the unavoidable minimum and increasingly rely on domestic budgetary resources. Here too, if the Government could restrict its current expenditure and succeed in generating a surplus, it would be really good. Under the present era of coalition governments, however, this is not going to be easy.

## 4. REVIEW OF PLANNING EXPERIENCE IN INDIA

From what we have described above, it may be inferred that most of India's Five Year Plans more or less failed and did not produce any favourable results. But such a conclusion would obviously be wrong. When we

say that a particular plan had failed or was not a success it only means that the targets fixed during a given Plan were not achieved fully. But we should remember that with every five year Plan, India could start at a higher level of growth and development. We shall now describe the concrete achievements of the development plans since 1951.

### Achievements of Planning in India

(i) *Increase in national and per capita income.* One of the basic objectives of economic planning in our country is to increase national and per capita incomes. As a direct consequence of economic planning, India's national income and per capita income rose, though not as rapidly as the planners planned and anticipated. Table 5 brings out clearly the rise in national income (i.e., net national product at factor cost) and per capita income, since 1950-51 at 1993-94 prices.

TABLE 5 : Growth of National Income and Per Capita Income

(at 1993-94 prices)		
Year	Net National Product (Rs. crores)	Per capita (Rs.)
1950-51	132,367	3,687
1960-61	192,235	4,429
1970-71	270,597	5,002
1980-81	363,417	5,352
1990-91	614,206	7,321
1996-97	852,085	9,007
2003-04	12,66,005	11,799
At 2004-05 Prices		
2004-05	26,23,995	24,095
2008-09	36,72,192	31,821
2009-10	39,29,853	33,588
Average Annual Growth Rates		
1950-51 to 1980-81	3.4	1.2
1980-81 to 1996-97	5.5	3.3
1996-97 to 2003-04	5.8	3.9
2004-05 to 2009-10	8.4	6.9

SOURCE : Government of India, *Economic Survey*, various issues, RBI Hand book of Statistics on Indian Economy, 2009-10

From Table 5, we find that national income at 1993-94 prices rose from Rs. 132,367 crores at the beginning of the First Plan to Rs. 852,085 crores at the end of the Eighth Plan.

On the other hand, the per capita income in real terms had, however, increased at a much lower rate indicating that part of the increase in real national income had been eaten up by the increase in population. Table 5 shows that per capita income at 1993-94 prices had risen from Rs. 3,687 to Rs. 9,007 between 1951 and 1997.

Between 1950-51 and 1996-97, the growth process of the Indian economy can be divided into two broad

### The Development Strategy

An important aspect of the redefinition of strategy that is needed relates to the role of the Government. An all pervasive government role may have appeared necessary at a stage where private sector capabilities were undeveloped, but the situation has changed dramatically. India now has a strong and vibrant private sector.

The public sector is much less dominant in many critical sectors and its relative position is likely to decline further as government ownership in many public sector enterprises is expected to decline to a minority. It is clear that industrial growth in future will depend largely on the performance of the private sector and the policies must therefore provide an environment that is conducive to such growth.

This is not to say that the Government has no role to play or only a minimalist role, in promoting development. On the contrary, it has an important role but a different one from that envisaged in the past. There are many areas such as the social sectors, where its role will clearly have to increase. There are other areas like infrastructure development, where gaps are large and the private sector cannot be expected to step in significantly. In these areas the role of Government may have to be restructured. It will have to increase in some areas of infrastructure development that are unlikely to attract private investment, such as rural infrastructure and road development.

In others like telecommunications, power and ports, the private sector can play a much larger role provided an appropriate policy framework is in place. Here, the role of the Government needs to change to facilitate such investment as much as possible while still remaining a public sector service provider for quite some time. In all these areas, the role of Government as a regulator ensuring a fair deal for consumers, transparency and accountability, and a level playing field is also extremely important.

### Objectives of the Tenth Plan

Traditionally, the level of per capita income has been regarded as a summary indicator of the economic well being of the country and growth targets have therefore focused on growth in per capita income or per capita GDP. In the past, the growth rates of GDP have been such as to double the per capita income over 20 years or so. Recognising the importance of making a quantum jump compared with the past performance, the Prime Minister directed the Planning Commission to examine the feasibility of doubling the per capita income in the next ten years. With population expected to grow at about 1.6 per cent per annum, this target requires the rate of growth of GDP to be 8 per cent over the Tenth Plan and 9.3 per cent during the Eleventh Plan.

The Approach Paper proposed that the Tenth Plan should aim at an indicative target of 8 per cent GDP growth for 2002-07. It is certainly an ambitious target, especially in view of the fact that GDP growth has decelerated to around 6 per cent during the last two years of the Ninth Plans.

Even if the deceleration is viewed as a short term phenomenon, the medium term performance of the economy over the past several years suggests that the demonstrated growth potential over several years is only about 6.5 per cent. The proposed 8 per cent growth target therefore involves an increase of at least 1.5 percentage points over the recent medium term performance, which is very substantial.

Economic growth cannot be the only objective for national planning and indeed over the years, development objectives are being defined not just in terms of increases in GDP or per capita income but more broader in terms of enhancement of human well being. This includes not only an adequate level of consumption of food and other types of consumer goods but also access to basic social services, especially education, health, availability of drinking water and basic sanitation. It also includes the expansion of economic and social opportunities for all individuals and groups and greater participation in decision making.

### Key targets

To reflect the importance of these dimensions in development planning, the Tenth Plan must establish specific and monitorable targets for a few key indicators of human development. It is proposed that in addition to the 8 per cent growth target, the following targets should also be considered as being central to the attainment of the objectives of the Plan

#### Monitorable Targets

- ◆ Reduction of poverty ratio by 5 percentage points by 2007 and by 15 percentage points per cent by 2012;
- ◆ Gainful employment to the addition to the labour force over the Tenth Plan period;
- ◆ Universal access to primary education by 2007;
- ◆ Reduction in the decadal rate of population growth between 2001 and 2011 to 16.2 per cent;
- ◆ Increase in literacy to 75 per cent by 2007.
- ◆ Reduction of infant mortality rate (IMR) to 45 per 1000 live births by 2007 and to 28 by 2012;
- ◆ Reduction of maternal mortality ratio (MMR) to 2 per 1000 live births by 2007 and to 1 by 2012.
- ◆ Increase in forest and tree cover to 25 per cent by 2007 and 33 percent by 2012.



## 7. ACHIEVEMENTS AND FAILURES OF THE TENTH PLAN

Tenth Plan completed its five years on 31<sup>st</sup> March 2007. Although complete information is not available about the achievements of the Plan, it would be appropriate to understand the achievements on the basis of facts available. This will provide an overall view of the progress during the plan.

Data provided in table 1 provide us the macro-economic indicators of the Plan.

Table 11: Macro-economic Indicators

	9 <sup>th</sup> Plan 1997-98 to 2001-02	10 <sup>th</sup> Plan 2001-02 2006-07
GDP growth of which	5.5	7.6
• Agriculture	2.0	2.1
• Industry	4.6	8.9
• Services	8.1	9.3
Gross Domestic Savings (As percent of GDP at market prices)	23.1	30.8
Gross Domestic Investment (As percent of GDP at market prices)	23.8	32.0
Current Account Balance (As percent of GDP at market prices)	-0.7	1.3
Foreign Exchange Reserves (US\$ billion)	54.2	165.3
Rate of Inflation (based on WPI)	4.9	5.1

Source: Planning Commission (2007) *Eleventh Five Year Plan* (2007-12), Vol.1.

### Creditable achievements of 10<sup>th</sup> Plan

Firstly, 10<sup>th</sup> Plan has not been able to achieve its target of 8 percent growth of GDP, but has taken the economy to a higher trajectory of growth rate at 7.6 percent as against 5.5 percent in the 9<sup>th</sup> Plan. It is also heartening to note that GDP growth in the last year of the Plan (2006-07) is expected to be 9.2 percent. This is a welcome development.

Secondly, gross domestic savings (as percent of GDP at market prices) averaged 28.2 percent in 10<sup>th</sup> Plan as against 23.1 percent in the 9<sup>th</sup> Plan. This is also a positive development because this implies that the economy is now moving to a higher level of saving which is a necessity to raise GDP growth a higher level of 8-9 percent. Domestic saving rate is estimated by the CSO to have climbed to 32.4 percent of GDP in 2005-06. This is a matter of legitimate pride because it enables the economy to reach higher levels of investment. Gross rate of

investment is expected to be of the order of 33.8 percent in 2005-06 – another record achievement.

Thirdly, the economy has been able to reduce its incremental capital output ratio from a level of 4.3 during the 9<sup>th</sup> Plan to a level of 4.2 during the 10<sup>th</sup> plan. With higher levels of capital formation expected during the 11<sup>th</sup> Plan, the economy will be able to attain the target of average GDP growth of 9 percent during the 11<sup>th</sup> plan.

Fourthly, our foreign exchange reserves reached a level of US \$ 185 billion on February 2007. This is another indication of the strength of the economy.

Fifthly, foreign investment flows were of the order of US \$ 20.2 billion in 2005-06 – US \$ 7.7 billion in the form of Foreign Direct Investment (FDI) and US \$ 12.5 billion in the form of Portfolio Investment (PI). Since FDI improves the productive capacity of the economy, the share of FDI in total foreign investment inflow is only 35.6 percent. This needs an improvement, because portfolio investment takes place in highly speculative activities and is very volatile. The situation has taken a turn in a better direction and in 2006-07 out of total inflows of the order of \$ 29.1 billion, FDI accounted for \$ 22.1 billion (i.e. 76% of total).

On the basis of these macro-economic indicators, *The Approach Paper of the 11<sup>th</sup> Five year Plan* concluded: "Compared to the 9<sup>th</sup> Plan, the pace of growth of the economy has accelerated and our macro-economic fundamentals are sound." (p.3)

### Gross failures on several fronts

While these achievements are welcome, there are also gross failures in certain targets. It would be of interest to examine them.

### Reduction in the size of the Plan

Table 2 provides data about the planned outlay during the Tenth Plan and the actual allocations. As against a total planned outlay of Rs. 15,25,269 crores in the Tenth Plan at 2001-02 prices, the actual allocation on the basis of 2006-07 prices works out to be Rs. 16,18,460 crores. But if we deflate these figures at 2001-02 prices, the shortfall in total planned outlay will be much greater since the average annual inflation rate during the Tenth Plan was 5.1 percent. This only underlines the stark reality that the Plan size was substantially reduced in real terms, may be of the order of 24 percent. This indicates a gross failure.

### Failure to reduce poverty to the targeted level

The 10<sup>th</sup> Plan had targeted to reduce poverty ratio in 2006-07 to a level of 19.2 percent as against 26.1 percent in 1999-00. However, on the basis of the findings of 61<sup>st</sup> Round of NSS, the level of poverty as studied on the basis of uniform recall period of 30 days was 27.5

TABLE 12: SECTORAL ALLOCATION OF PUBLIC SECTOR RESOURCES FOR THE TENTH PLAN

	Original Tenth Plan*		2002-03 to 2006-07**	
	Amount (Rs. crores)	%	Amount (Rs. crores)	%
1. Agriculture and allied activities	58,933	3.9	60,702	3.8
2. Rural Development	1,21,928	8.0	1,37,710	8.5
3. Special Area Programmes	30,879	1.3	16,423	1.0
4. Irrigation & Flood Control	1,03,315	6.8	112,415	6.9
Sub-total (1+2+3+4)	3,05,055	20.0	3,27,250	20.2
5. Energy	4,03,927	26.5	3,63,635	22.5
6. Industry and Minerals	58,939	3.9	64,655	4.0
7. Transport	2,25,977	14.8	2,63,934	16.3
8. Communications	98,968	6.5	82,945	5.1
9. Science, Technology and Environment	30,424	2.0	28,673	1.8
10. General Economic Services	38,630	2.3	30,349	1.9
11. Social Services	3,47,391	22.8	4,36,529	27.0
12. General Services	16,328	1.0	20,489	1.2
<b>Total (1 to 12)</b>	<b>15,25,639</b>	<b>100.0</b>	<b>16,18,460</b>	<b>100.0</b>

\* At 2001-02 prices

\*\* At 2006-07 prices

Source: Compiled and computed from *Eleventh Five Year Plan (2007-12), Vol. I*.

percent in 2004-05 as against the comparable figure of 36.0 percent in 1993-94. This implies during the 11-year period (1993-94 to 2004-05), there was reduction of poverty by 8.5 percentage points. The average reduction of poverty works out to be 0.74 percent for the period 1993 to 2004. Translated in terms of absolute numbers, 300 million persons were below the poverty line in 2004-05. The data also reveal that 166 million poor i.e. 55.4 percent of total were concentrated in five states, with Uttar Pradesh topping the list with 59 million poor, followed by Bihar (36.9 million), Maharashtra (31.7 million), West Bengal (20.8 million) and Orissa (17.8 million). Obviously, there is a gross failure in the target of poverty reduction. This has introduced an internal inconsistency in the Indian economy. While there is an improvement in GDP growth, this is not reflected in an increase in poverty reduction. Rather it indicates a slowing down of rate of poverty reduction. Consequently, the percolation effect of higher growth of GDP to the poor is conspicuous by its absence which means the benefits of accelerated growth are pocketed by the upper classes. This stark reality needs remedial action.

### Unemployment on the Increase

10<sup>th</sup> Plan targeted to reduce unemployment from a level of 9.11 percent in 2001-02 to a level of 5.11 percent in 2006-07. But data about unemployment as revealed by 61<sup>st</sup> Round (NSS) shows that unemployment on CDS basis was 8.3 percent in 2004-05. In respect of males, it was nearly 7.2 percent, but female unemployment was more than 9 percent. It may be noted that levels of female unemployment were higher than those of males - 8.7% in rural areas and 11.6% in urban areas in 2004-05.

Another distressing feature of the employment situation is that the organized sector employment growth was negative - at the annual average of (-) 0.38 percent during 1994-2004. While public sector employment growth fell to (-) 0.80 in 1994-2004, since the public sector was shedding the load of surplus workers, private sector employment tardily improved its annual average from 0.44% during 1983-1994 to 0.61% during 1994-2004. The failure of the organized private sector to compensate for the fall in employment in the public sector resulted in a sharp decline in the overall employment growth rate becoming negative. There was lip sympathy expressed for the employment generating sectors, but in reality the reform process pushed its agenda of strengthening corporate sector. The explanation for failure of the employment objective lies in the growing capital intensity of the economy. Failure on the employment objective also contributed to the slowing down of poverty reduction in the 10<sup>th</sup> Plan.

### Dismal Performance of Agricultural Sector

Prime Minister Manmohan Singh candidly admitted: "the cornerstone of the Plan had been a reversal of the declining trend in the growth rate of agriculture to eventually take it to above four percent. The actual performance in agriculture appears to have deteriorated even further and will possibly not exceed 1.5 percent during the first three years of the plan." The estimate of actual growth in agriculture for the entire 5-year period is now reckoned at 1.7 percent which is even less than half of the target of 4 percent growth envisaged in the Plan. Economists are of the opinion that the recent spurt

in the prices is mainly fuelled by supply constraints of agriculture. For this purpose, it is vitally necessary to step up investment in irrigation and watershed management. The government seems to have responded to this wake-up call by Indian agriculture and is now taking measures to step up investment in irrigation, watershed management and other related sub-sectors in agriculture.

#### No Reduction in Regional Inequalities

The Tenth Plan has not been able to bring about balanced regional development. Several studies are available which show that interstate inequality has increased in the nineties as only the better-off states were able to benefit from the economic reforms and increase their growth rate significantly. While it is now an established fact that the richest states benefited the most, but in contrast some of the poorest and most populous states did experience decelerating growth.

#### Failure to reduce untargeted subsidies

To cut down subsidies even of the untargeted groups raises problems of tackling various kinds of lobbies. The Mid-term Appraisal stated very categorically that the minimum support prices paid for agricultural produce and subsidies on inputs such as fertilizers, electric power and water rates are availed of typically by the richer farmers. Both the Centre and the State Governments have to muster courage to reduce and ultimately eliminate such subsidies which are distributionally inequitable.

Similarly, lamenting the populist attitude of the state governments regarding electric power, the Mid-term Appraisal stated: "Electric power is clearly the area which remains perhaps the single largest cause of concern to the economy. Progress in this area has clearly been disappointing." Though large investment is required for improving generating capacity, the failure of state governments to levy user charges has been the biggest impediment. It is, therefore, vitally necessary

that a rational electrification strategy be evolved so that power projects can be properly maintained and also to augment power supply, investible resources are released. The enactment of the Electricity Act, 2003 does have the potential to bring about dramatic changes, but this can happen if the States take collateral steps.

#### Financial Pattern Goes Haywire

As against an expectation of 1.3 percent as balance from current revenues, the performance during the Plan indicates a negative balance of the order of 9.6 percent. As against an expectation of 37.6 percent resources from public sector enterprises, actual realizations were of the order of 34.9 percent. There was practically a negligible net inflow from abroad of the order of just about percent. In this scenario, market borrowings were of the order of Rs. 12,22,161 crores i.e. 74 percent of the total as against the original provision of 59.4 percent. The emerging financial pattern only underlines the stark reality that major source of plan financing is market borrowing. This only shows that the original pattern of financing envisaged was only an attempt at wishful thinking. As a consequence of the heavy dose of market borrowing, the liabilities of the government in terms of interest payment would increase still further (Refer table 13).

#### Failure to achieve the targets of reducing IMR and malnutrition among children

10<sup>th</sup> Plan targeted to reduce infant mortality rate (IMR) to 45 and maternal mortality rate (MMR) to 2 per 1000 live births by 2007. On both counts, there is a serious failure as IMR in 2005 was still as high as 58 and MMR is 4. There is a strong need to strengthen health improvement measures in the country. The Plan has failed in these monitorable targets.

Besides, this there is very dismal performance with regard to reduction in mal-nutrition. The National

TABLE 13 : FINANCIAL PATTERN DURING THE TENTH PLAN

	Original Tenth Plan*		2002-03 to 2006-07** Estimate	
	Amount (Rs. crores)	%	Amount (Rs. crores)	%
1. Balance from current revenues	20,193	1.3	-1,58,888	-9.6
2. Borrowing including MCR	9,46,667	59.4	12,22,161	73.9
3. Resources of public enterprises	5,98,240	37.6	5,77,533	34.9
4. Aggregate Domestic Resources (1+2+3)	15,65,100	98.3	16,40,806	99.2
5. Net inflow from abroad	27,200	1.7	16,121	0.9
6. Resources for the Public Sector Plan (4+5)	15,92,300	100.0	16,53,868	100.0

\* At 2001-02 Prices \*\* At current prices

Source: Compiled and computed from the data provided by the *Eleventh Five Year Plan - 2002-12*, Vol 1

Family Health Survey (2005-06) has recorded that the progress regarding reduction of child malnutrition during the 7-years period between 1998-99 and 2005-06 has been very poor.

Table 14: Progress in Reducing Child Malnutrition

	NFHS-2 (1998-99)	NFHS-3 (2005-06)
Children under 3 years who are		
(a) stunted	46	38
(b) wasted	16	19
(c) underweight	47	46

Source: National Health Surveys (Fact Sheets)

The data presented in table 4 indicates that between 1998-99 and 2005-06, (a) the proportion of children who are stunted (too short for age) marginally declined from 46% to 38% and (b) those who are wasted (too thin for height) increased from 16% to 19%. Similarly, (c) the proportion of underweight children indicated merely 1 percent decline in 7 years and was still high at 46% in 2005-06.

### Conclusion

The total picture that emerges after a review of the achievements and failures of the Tenth Plan in that the

planners are able to push forth the growth objective of GDP rising to a level of over 9 percent in 2006-07 and along with it, the level of saving and investment has been raised to 32% and 34% respectively. These are creditable achievements for which the country can legitimately feel proud

But the irony of the growth process is that it has failed to percolate the benefits of growth down the line among the poor and weaker sections of the society, but has lined up the pockets of the better-off sections of society. Consequently, poverty is widespread and around 300 million persons (27.5% of the population) were living below the poverty line. The level of unemployment on CDS basis was as high as 8.3 percent in 2004-05. There is gross failure on the agricultural front and the actual average annual growth rate achieved in the 10<sup>th</sup> Plan was 2.1 percent as against the target of 4 percent. There is no reduction in regional disparities and five poor states account for 55 percent of total poor. The child population suffering from malnutrition was as high as 46% in 2005-06.

The question which the critics raise is: Growth for whom? Is it for *aam admi* (Common man) or for the millionaires and billionaires and the richer classes in general. Effective measures are needed to promote inclusive growth, rather than paying lip sympathy for the poor and downtrodden.

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lion in 1993-94 to 302 million in 2004-05. This performance is all the more disappointing since the poverty line on which the estimate of the poor is based is the same as in 1973-74, when per capita incomes were much lower." (emphasis added)

2. Indicators of deprivation suggest that the proportion of population deprived of a minimum level of living is much higher. This is indicated by the following

- (a) According to National Family Health Survey, 46% of the children in the 0-3 age group suffered from malnutrition in 2005-06, but the more disturbing fact is that there is no decline from the level of 47% reported in 1998.
- (b) Human Development indicators like literacy, maternal and infant mortality rates also show

that the progress is slow and India lags behind several other countries in Asia. While literacy rate has gone up to 64.8% in 2001, the number of illiterates still exceeds 304 million, making India the country with the largest number of illiterates. Life expectancy during 2001-06 is 63.9 years for males and 66.9 years for females, is still below 72 years for China. Adverse sex ratio with only 933 women for 1,000 men is another cause for concern. More disturbingly, the child sex ratio (ages 0-6) has declined sharply from 962 in 1981 to 927 in 2001. Infant mortality rates are higher than those of countries in East Asia.

3. Agriculture growth continues to be sluggish and was of the order of 2.1 percent during the 10<sup>th</sup> Plan, despite a target of 4% growth.

#### TARGETS SET TO ACHIEVE THE OBJECTIVES

##### (i) Income and Poverty

- (1) Average GDP growth of 9% per year.
- (2) Agricultural GDP growth of 4% per year.
- (3) Generation of 58 million employment opportunities;
- (4) Reduction unemployment among the educated to less than 5%.
- (5) 20% increase in the real wage of unskilled workers.
- (6) Reduction in headcount ratio of poverty by 10 percentage points.

##### (ii) Education

- (1) Reduction in drop-out rate among children at the elementary level from 52.2% in 2003-04 to 20% by 2011-12.
- (2) Developing minimum standards of attainment in elementary schools to ensure quality of education.
- (3) Increasing literacy rate for persons 7 years or more to 85% by 2011-12.
- (4) Reducing gender gap in literacy to 10 percent points by 2011-12.
- (5) Increasing the percentage of persons going for higher education from 10% to 15% by 2011-12.

##### (iii) Health

- (1) Infant mortality rate (IMR) to be reduced to 28 and maternal mortality rate (MMR) to 1 per 1,000 by 2011-12.
- (2) Total fertility rate to be reduced to 2.1 by 2011-12.
- (3) Clean drinking water to be made available to all by 2009.
- (4) Malnutrition among children of age 0-3 to be reduced to half its present level.
- (5) Anaemia among women and girls to be reduced to half its present level.

##### (iv) Women and Children

- (1) Sex ratio for age group 0-6 to be raised to 935 by 2011-12 and to 950 by 2016-17.
- (2) Ensuring that at least 33% of beneficiaries of all government schemes are women and girl children.
- (3) Ensuring that all children enjoy a safe childhood, without any compulsion to work.

##### (v) Infrastructure

- (1) To ensure electricity connection to all villages and BPL (Below Poverty Line) Households by 2009 and reliable power by the end of the 11<sup>th</sup> Plan.
- (2) To ensure all-weather road connection to all habitations with population 1000 and above (500 and above for hilly areas) by 2009.
- (3) To connect every village by telephone and provide broad band connectivity to all village by 2012.
- (4) To provide homestead sites to all by 2012 and step up the pace of housing construction for the poor to cover all the poor by 2016-17.

##### (vi) Environment

- (1) To increase forest and tree cover by 5 percentage points.
- (2) To attain WHO standards of air quality in all major cities by 2011-12.
- (3) To treat all urban waste water by 2011-12 to clean river waters.
- (4) To increase energy efficiency by 20 percentage points.

2. *Ibid.*, p. 7.

4. Current daily status unemployment rate increased from 7.3% in 1999-00 to 8.3% in 2004-05, despite the higher GDP growth of 7.6% during the 10<sup>th</sup> Plan. Moreover, the entire increase in employment has taken place in the unorganized sector. A very disturbing feature of the employment situation is, "Permanent employment in the organized sector has decreased, although organized sector firms may be increasing their informal employment."<sup>3</sup> This indicates deterioration in the quality of employment.



**2. OBJECTIVES OF THE ELEVENTH PLAN**

The Plan envisages a high growth of GDP of the order of 9 percent for the country as whole. This implies that per capita GDP would grow at about 7.5% per year to double in 10 years.

However, the Plan document hastens to add that the target is not just faster growth but also inclusive growth which ensures broad based improvement in the quality of life of the people, especially the poor SCs/STs, OBCs and the minorities.

**Vision for the Eleventh Plan**

The broad vision of the 11<sup>th</sup> Plan includes several inter-related components.

1. Rapid growth that reduces poverty and creates employment opportunities;
2. Access to essential services in health and education especially for the poor;
3. Empowerment through education and skill development;
4. Extension of employment opportunities using National Rural Employment Guarantee Programme;
5. Environmental sustainability;
6. Reduction of gender inequality; and
7. improvement of governance.



**3. MACRO ECONOMIC DIMENSIONS OF THE ELEVENTH PLAN**

Total Public Sector outlay in the Eleventh Plan (Both Centre and States) is estimated at Rs.36,44,718 crores. Out of this, the share of the Centre will be Rs.21,56,571 crores (59.2%) and that of the States will be Rs.14,88,147 crores (40.8%). The 11<sup>th</sup> plan outlay will be 120% higher than the 10<sup>th</sup> Plan realization. As a proportion of GDP, public sectors outlay of the Eleventh Plan will be an average of 13.54% compared to 9.46% that was achieved in the 10<sup>th</sup> Plan realization.

3. Ibid., p.2.

**Targets of GDP and per capita GDP -** The 11<sup>th</sup> Plan has targeted average GDP growth of the order of 9% for the Plan period 2007-11, which implies increasing gradually from 8.5% in 2007-08 to 10% in 2011-12. Per capita GDP growth will be of the order of 7.6% per year and this would double in 10 years.

**Sectoral Growth Rates -** Eleventh Plan intends to improve the growth rate of agriculture from 2.13% realized in the 10<sup>th</sup> Plan to 4%. Industry growth is targeted to be stepped up to 10-11% and service sector growth to 9-11%. The Eleventh Plan aims at double digit growth both in manufacturing and industry. For this, it will be critical to improve the performance of the core sector (steel, coal cement, oil, fertilizers and refined petroleum) to sustain this growth.

**Table 1: Macro-economic Parameters**

	Tenth Plan	Eleventh Plan
1. Investment rate (% of GDP)	32.1	36.7
2. Domestic Saving rate (% of GDP)	30.8	34.8
3. Current account deficit (% of GDP)	1.28	1.88
4. Incremental capital output ratio (ICOR)	4.3	4.1
5. GDP growth rate	7.5	9.0

Figures are based on 2006-07 prices  
Source: Planning Commission (2007), Eleventh Five Year Plan (2007-12), Vol. I, p.30

Service sector growth has improved impressively during the 9<sup>th</sup> and the 10<sup>th</sup> plan. Further improvement to a level of 9-11% with rapid growth in IT related services and in tourism will contribute to this outcome. The expected expansion in health and education should provide additional jobs in teaching, doctors and other medical personnel.

**Table 2: Sectoral Growth Rates In Plans**

	Agriculture	Industry	Services	Total
Ninth Plan (1997-2001)	2.44	4.29	7.87	5.52
Tenth Plan (2002-2006)	2.13	8.90	9.28	7.59
Eleventh Plan (2007-12)	4.0	10.11	9.11	9.0

Source: Planning Commission (2007), Eleventh Five Year Plan (2007-12), Vol I, p.30

**Public and Private sector Investment**

The Eleventh Plan estimates an increase in private sector investment to reach 28.7 percent and public sector investment to 8.0%. This will result in aggregate investment to reach 36.7%.

obtained from market borrowings and 34.9 percent were contributed by public sector undertakings. However, balance from current revenues (both Centre and States) were negative to the tune of 9.6 percent of total plan resources.

As against this picture of Tenth Plan realizations, the Eleventh Plan hopes to generate Rs. 10,39,039 crores – 28.5 of the resources from balance from current revenues. The Planning Commission states: "This outcome is the consequence of tighter fiscal discipline imposed by fiscal responsibility framework, both at the Centre and the States and an optimistic revenue outlook driven by buoyancies in revenue collections during the last three years of the Tenth Plan reflects the robust performance of the economy."<sup>6</sup>

The planners are conscious of the fact that this optimism may not be realized because there are certain uncertainties associated with the impact of Sixth Pay Commission recommendations. Equally important is the upward pressure on subsidies, particularly fertilizer and petroleum subsidies. The hike in the international price of petroleum above \$115 per barrel is already pushing the petroleum subsidy very sharply. Similarly, fertilizer subsidies are also increasing. There is an urgent need to undertake reform of the subsidies. However, the Central Government is not taking a courageous step to control them, fearing backlash in the impending General Election due in 2009. This may upset the optimistic calculations of the Planning Commission which will force the planners either to cut the size of the Plan or take greater resort to market borrowing.

Resources of surplus from public sector undertakings are continuing their forward march and all likely to finance 32.6% – or nearly one-third of the total public

sector plan. But subsidies provided to petroleum products may reduce resources generation by public sector oil companies – a major source of resource generation. Actual realization from PSUs will be affected by two factors: (a) international price of oil, and (b) the policy of the Central government on petroleum subsidies. If the realization from PSUs decline in the Eleventh Plan, the country may witness a higher dose of market borrowing to finance the Plan.

It is, therefore, difficult to agree with the rosy picture presented by the Planning Commission about the financial pattern of the Eleventh Plan. A similar optimistic outlook was presented at the time of the formulation of the Tenth Plan, but its financial pattern went haywire. In the absence of bold policies in view of the problems of coalition government, actual realizations in the Eleventh Plan may vary sharply from projected figures on various components.



## 5. SECTORAL ALLOCATION OF RESOURCES

A comparison of the sectoral allocation of the 10<sup>th</sup> and the 11<sup>th</sup> Plan is given in table 7. It may be observed that as compared to Tenth Plan realizations of Rs. 16,18,460 crores in the aggregate, Eleventh Plan proposes an overlay of Rs. 36,44,718 crores – an increase by 125 percent. In this sense, the Eleventh Plan is bold and more ambitious. It is, therefore, natural to expect large absolute increases in all the sectors.

However, it would be more desirable to see whether the resource allocation pattern marks a big shift from that of the Tenth Plan. For this purpose, percentage of total

Table 7: Sectoral allocations during 10<sup>th</sup> and 11<sup>th</sup> Plan

	10 <sup>th</sup> Plan Realizations (2002-07)		11 <sup>th</sup> Plan Projections (2007-12)	
	Rs. crores	%	Rs. crores	%
1. Agriculture and allied activities	60,702	(3.8)	1,36,381	(3.7)
2. Rural Development	1,37,710	(8.5)	3,01,069	(8.3)
3. Special area programmes	16,423	(1.0)	26,329	(0.7)
4. Irrigation & flood control	1,12,415	(6.9)	2,10,326	(5.8)
Total Agriculture (1 to 4)	3,27,250	(20.2)	6,74,105	(18.5)
5. Energy	3,63,635	(22.4)	8,54,123	(23.4)
6. Industry & Minerals	64,655	(4.0)	1,53,600	(4.2)
7. Transport	2,63,934	(16.3)	5,72,413	(15.7)
8. Communications	82,945	(5.1)	95,380	(2.6)
9. Science, Technology & Environment	28,673	(1.8)	8,7933	(2.4)
10. General Economic Services	30,349	(1.9)	62,523	(1.7)
11. Social services*	4,36,529	(27.0)	11,02,327	(30.9)
12. General Services	20,489	(1.3)	42,283	(1.2)
Total	16,18,460	(100.0)	36,44,718	(100.0)

\* Social Services include education, medical and public health, water supply & sanitation, housing and urban development etc.  
Source: Compiled and computed from Planning Commission (2007), *Eleventh Five Year Plan* (2007-12)

6. Ibid., p.47.

Table 8: Social Services in the Eleventh Plan

	Centre	States and UTs	Total	%
Social Services	5,78,864	5,23,463	11,02,327	30.3
1. Education	2,38,608	1,08,730	3,47,338	9.5
2. Medical & Public Health	1,20,879	53,897	1,74,776	5.0
3. Water supply & sanitation	41,825	86,447	1,28,272	3.5
4. Housing	—	26,007	26,007	0.7
5. Urban Development	68,532	85,530	1,54,062	4.2
6. Other social services	1,09,020	1,62,852	2,71,872	7.5
Total Plan Outlay	21,56,571	14,88,147	36,44,718	100.0

Source: Compiled from the data provided for Central Ministries and States and UT plans in the *Eleventh Five Year Plan* (2007-12)

plan outlay for each sector are indicated in Table 7. From the presentation of comparative figures of Tenth and Eleventh Plan, it may be observed that the share of agriculture and irrigation which was 20.2% in the Tenth Plan has been reduced to 18.5% in the Eleventh Plan. A major upward shift in the proportion of allocation is observed in social services i.e. from 27 percent in the Tenth Plan to 30.3 percent in the Eleventh Plan. There is also a big decline in the proportion of allocation to communications – from 5.1% in the Tenth Plan to 2.6% in the Eleventh Plan – nearly by 50 percent. Since the private sector has been growing strong in the development of communications, this reduction appears to be justified. As the Eleventh Plan intends to undertake human development on a big scale, education and health allocations are proposed to be stepped up. This is consistent with its strategy of inclusive growth.

Energy imposes a constraint on development and the Eleventh Plan commitment of 23.4% to the energy sector is eminently justified.

The most disappointing aspect of the resource pattern of the Eleventh Plan is its reduced priority in terms of resource allocation to agriculture. Within the agricultural sector, slashing down the provision for irrigation to 5.8% against the Tenth Plan allocation of 6.9% is also uncalled for, because it is held by the economists that extension of irrigation is the basic necessity to achieve the target of 4% growth in agriculture.

#### Allocation for Social Services

Eleventh Plan intends to incur an outlay of Rs. 11,02,327 crores (30.3%) of the total plan outlay on social services. The share of education is being stepped up to Rs. 3,47,338 crores (9.5% of plan outlay), followed by medical & public health, nearly Rs. 1,75,000 crores (5% of total) and urban development Rs. 1,54,000 crores (4.2% of total). A big programme for the provision of drinking water supply and sanitation involving Rs. 1,28,272 crores has been undertaken, so as to provide drinking water to all habitations.

#### Infrastructure Development

Good quality infrastructure is most critical physical requirement for attaining faster economic growth in a competitive world and also for ensuring investment in backwards regions. The total investment needed for infrastructure defined to include electric power, roads, railways, airports, telecommunications, irrigation, drinking water, sanitation, storage and warehousing will have to increase from about 5% of GDP in 2006-07 to 9% of GDP in 2011-12. Since public private partnership is being promoted, the share of the private sector is expected to rise to about 25%. Obviously public sector has to play a leading role in infrastructure.

Table 9: Investment in Infrastructure

	(Percentage of GDP)	
	2006-07	2011-12
Public Sector (Centre+States)	4.11 (82.2)	6.78 (75.3)
Private Sector	0.89 (17.8)	2.22 (24.7)
Total	5.00 (100.0)	9.00 (100.0)

Source: Planning Commission, *Eleventh Five Year Plan* (2007-12) Vol. I.

#### Power Development

The performance of the Tenth Plan in power development was disappointing. As against a target addition of 41,110 Mega Watt (MW), only 21,080 MW were commissioned (i.e. 51%), out of which 18,000 MW were actually made fully operational.

The Eleventh Five Year Plan targets a capacity addition of 92,577 MW, out of which the share of hydro power will be 16,553 MW (17.9%), thermal power 58,644 MW (63.3%), Nuclear power 3,380 (3.7%) and wind & renewable energy sources 14,000 MW (15.1%). Obviously, the Eleventh Plan programme of power generation is a much bolder attempt, if the government is able to execute it within the timeframe of 5 years.

Table 9: Additional Power Generation Capacity During the 11<sup>th</sup> Plan (2007-12)

	Megawatt	%
Hydro	16,553	17.9
Thermal	58,644	63.3
Nuclear	380	3.7
Wind and Renewable energy sources	14,000	15.1
Total	92,577	100.0

Source: Planning Commission, *Eleventh Five Year Plan* (2007-12), Vol.III.

### IT Sector

Eleventh Plan targets to reach a subscriber base of 600 million and a rural teledensity of 25%. The IT Sector at present employs over 5 million people and is expected to provide employment to over 18 million by 2012.

### Petroleum and Natural Gas Production

Eleventh Plan proposes an outlay of Rs. 2,13,515 crores on petroleum and natural gas production. This is likely to produce 207 million tonnes of crude oil during 2007-12 and 266 bcm of natural gas production.

### Roads

An expanded National Highway Development Programme involving Rs. 2,27,258 crores is contemplated in the Eleventh Plan. Besides Highway Development, the plan intends to ensure all-weather roads connection to all habitations with population 1,000 and above (500 and above in hilly and tribal areas) by 2009.



## 6. EMPLOYMENT PERSPECTIVE IN THE ELEVENTH PLAN

Eleventh Plan rightly states: "Generation of productive and gainful employment, with decent working conditions, on a sufficient scale to absorb our growing labour force form a critical element in the strategy for achieving inclusive growth."

Table 10: Employment scenario during 1993-94 to 2004-05

All India	1993-94	1999-00	2004-05	Current daily status	
				Growth rate during 1993-94 to 1999-00	Growth rate during 1999-00 to 2004-05
	(Million Persons)				
1. Population	893.4	1005.0	1092.8	1.98	1.69
2. Labour	334.2	364.9	419.6	1.47	2.84
3. Workforce	313.9	338.2	384.9	1.25	2.62
4. No. of employed (2-3)	20.3	26.7	34.7	4.69	5.40
5. Unemployment rate (%) (4/2*100)	6.1	7.3	8.3		

Source: Planning Commission, (2007), *Eleventh Five Year Plan*, Vol.1., p.71

7. Ibid., p.69

### Weaknesses of past experience

"The basic weakness in our employment performance is the failure of the Indian economy to create a sufficient volume of additional high quality employment to absorb new entrants into the labour force while also facilitating the absorption of surplus labour that currently exists in the agricultural sector into higher wage non-agricultural employment."

The following major weaknesses were noticed in the Eleventh Plan:

- The rate of unemployment has increased from 6.1% in 1993-94 to 7.3% in 1999-00 and further to 8.3% in 2004-05.
- Unemployment among agricultural labour households has risen from 9.5% in 1993-94 to 15.3% in 2004-05.
- While non-agricultural employment expanded a robust rate of 4.7% during the period 1999-00 to 2004-05, this growth was largely in the unorganized sector.
- Despite fairly healthy GDP growth, employment in the organized sector actually declined, leading to frustration among the educated youth.
- Although real wages of casual labour in agriculture continue to rise during 2000-2005, growth has decelerated strongly as compared to 1994-2000 which reflects poor performance in agriculture.
- Growth of real wage rates in non-agricultural employment during 1999-00 to 2004-05 has been negligible.
- Real wages stagnated or declined even for workers in the organized industry although managerial and technical staff did secure large increase.
- Wage share in the organized sector has halved after 1980s and is now among the lowest in the world.

During the Tenth Plan, as against a target of 50 million employment opportunities, 47 million employment opportunities were created which indicates that the employment target was more or less achieved. Moreover, employment growth rate improved from 1.25%

Table 11: Sector wise share of employment by current daily status

	1993-94	1999-00	2004-05
(1) Agriculture	61.0	56.6	52.1
(a) Mining & Quarrying	0.8	0.7	0.6
(b) Manufacturing	11.1	12.1	12.9
(c) Electricity, water etc.	0.4	0.3	0.4
(d) Construction	3.6	4.5	5.6
(2) Industry (a+b+c+d)	15.9	17.6	19.5
(e) Trade, hotel & Restaurant	8.3	11.2	12.6
(f) Transport, storage & Comm.	3.2	4.1	4.6
(g) Finance, insurance, real estate & business services	1.1	1.4	2.0
(h) Community, social & personal services	10.5	9.1	9.2
(3) Services (e+f+g+h)	23.1	25.8	28.4
Total	100.0	100.0	100.0

Source: Compiled from Planning Commission (2007), *Eleventh Five Year Plan*, Vol.1., p.71

during 1993-94 to 1999-00 to 2.62% during 1999-00 to 2004-05. The annual increase in employment rose from 4 million per annum to 9.3 million per annum during 1999-00 to 2004-05.

Share of Employment in different sectors reveals the share agricultural employment declined from 61.0% in 1993-94 to 52.1% in 2004. The share of industry improved from 15.9% in 1993-94 to 19.5% in 2004-05. Services indicated the sharpest increase from 23.1% in 1993-94 to 28.4% in 2004-05.

**Employment Projections for the Eleventh and Twelfth Plans**

The Approach Paper of the Eleventh Plan had

projected an addition to labour force of 52 million in the Plan period. However, the projections of labour force growth have been revised in view of the latest population projections made by the National Commission on Population and work done by the Eleventh Plan Working Group on Labour Force and Employment Projections. The projected increase in labour force during the Eleventh Plan is now estimated as 45 million.

Since the backlog of unemployed in 2006-07 were reckoned as 36.7 million, the total requirement of employment opportunities works out to be about 82 million.

With the generation of additional employment opportunities of the order of 58 million in the Eleventh Plan, the backlog of unemployed at the end of the

Table 12: Population, Labour Force and Employment Projection

	2004-05	2006-07	2011-12	Million 2016-17
(a) Population	1,092.8	1,128.1	1,208.0	1,283.2
(b) Labour Force	419.6	438.9	483.6	524.0
(c) Employment opportunities	384.9	402.2	460.3	518.2
(d) Unemployed	34.7	36.7	23.3	5.8
(e) Unemployment Rate (%)	8.28	8.36	4.83	1.12

Source: Planning Commission (2007), *Eleventh Five Year Plan*, Vol.1., p.71

Table 13: Projected Growth of Population, Labour Force and Employment

	2004-05 to 2006-07	2006-07 to 2011-12	2011-12 to 2016-17
Growth rate in population	1.43	1.37	1.22
Growth rate in labour force	2.02	1.96	1.62
Growth rate in employment	1.98	2.73	2.42
Additions to labour force (million)	19.3	44.7	40.4
Additions to employment opp. (million)	17.3	58.1	57.9
Average additions to employment per year (million)	8.6	11.6	11.6

Source: Planning Commission (2007), *Eleventh Five Year Plan*, Vol.1., p.71

Eleventh Plan will be of the order of 23-24 million. Consequently, the rate of unemployment will decline from 8.36% in 2006-07 to 4.83% in 2011-12. Similarly, another 58 million employment opportunities will be created in the Twelfth Plan and as a consequence, the backlog unemployed will get further reduced to merely 6 million. The rate of unemployment will fall still further to 1.12% in 2016-17. If the projections and the actual realizations are achieved as per schedule, India will attain a state of full employment by 2016-17. But the Planning Commission is itself not sure of its labour force projections and employment generation capacity of the economy. To safeguard itself, it mentions:

"There are important qualifications to these projections which must be kept in mind, arising from the limitation of employment elasticity as a projection tool. The concept of employment elasticity is at best a mechanical device to project employment on the basis of projected growth of output and past relationships between employment and output. These relationships can change as a result of changing technology and change in real wages. The labour force participation rate is also subject to changes especially because of possible changes in female participation rates in urban areas associated with advances in women's education. For all these reasons, the projected decrease in unemployment rate must be treated with caution."

Table-13 presents data about additional employment opportunities created in agriculture during the Tenth Plan, the Eleventh Plan contemplates zero additional employment. To assume zero employment elasticity in agriculture when the rate of GDP growth in agriculture is sought to be stepped up from 2% to 4%, is to say the least, preposterous. This is more so when the Eleventh Plan itself recommends encouragement to employment generating sectors in the economy. If 8.84 million employment opportunities could be generated in the Tenth Plan in agriculture, it pass one's comprehension why the same order of employment opportunities, if not more, be generated during the Eleventh Plan, moreso when its growth rate is to be doubled. Agriculturally backward states like Bihar, Orissa, Chhattisgarh, Rajasthan and Uttar Pradesh can certainly create more employment opportunities via extension of irrigation and watershed development. The major sources of employment generation in the Eleventh Plan are trade, hotels and restaurants (17.4 million), manufacturing (11.94 million), construction (11.92 million) and transport, storage and communications (9 million). If the target of additional employment in agriculture had been kept at the same level as in the Tenth Plan i.e. 8.8 million, the employment generation in the Eleventh Plan would have reached the level contemplated by the Approach Paper (65 million). It appears that the Planning Commission intends to develop agriculture via contract farming and treating the corporate sector as the main source of agricultural growth. If that is so, it goes against the philosophy of inclusive growth.

8. Ibid, p.83

It would be worthwhile to compare this optimism moderated with a certain degree of caution along with the observations made in the Approach to the Eleventh Five Year Plan (December 2006): "On the supply side, the labour force will increase by about 52 million during the 11<sup>th</sup> Plan if it grows at the same rate as current projections of working age population. The increase could be much higher, around 65 million if female participation rises at the pace observed during 1999-2005. Since the increase will be over and above the present backlog of 35 million unemployed on a typical day, and since inclusiveness requires a shift from agriculture to non-agriculture, we must plan for at least 65 million additional non-agricultural opportunities in the 11<sup>th</sup> Plan."

The basic message of the Approach Paper was that total employment requirement would be 100 million in the 11<sup>th</sup> Plan (65 million new entrants plus 35 million backlog). In case, 65 million new employment opportunities are created during the 11<sup>th</sup> Plan, then the same backlog of unemployment (35 million) will be left at the end of the 11<sup>th</sup> Plan.

Table 14: Sectorwise Generation of Additional Employment

	Tenth Plan Achievement (2000-05)	Projected for Eleventh Plan (2007-12)
Agriculture	8.84	0.00
Mining and Quarrying	0.17	0.00
Manufacturing	8.64	11.94
Electricity, water etc.	0.18	0.02
Construction	6.44	11.92
Trade, Hotels & restaurant	10.70	17.40
Transport, storage & communication	4.04	9.02
Finance, insurance, real estate & business services	3.12	3.43
Community, social & personal services	4.59	4.34
Total	46.71	58.07

Source: Planning Commission (2007), *Eleventh Five Year Plan (2007-2012)*

The Planning Commission has now reduced the estimate of new entrants to the labour force from 65 million to 45 million – a drastic reduction by 20 million in the estimate of the labour force. Even when the Planning Commission has now estimated the target of additional employment to a lower level of 58 million opportunities, it has been able to bring the backlog of unemployed at the end of the 11<sup>th</sup> Plan to 23-24 million and bring about a reduction in the rate of unemployment from 8.36% in 2006-07 to 4.83% in 2011-12. What else is this but statistically jugglery!!

Another issue which has evaded the Planning Commission is: What strategy should be adopted to

9. Planning Commission (2007), *An Approach to the 11<sup>th</sup> Five Year Plan*, p.73.

increase the wage share in organized sector when it has itself admitted that "it has halved after the 1980's and is now among the lowest in the world." Similarly real wages stagnated or declined even for workers in organized industry, although managerial and technical staff did secure large increase. Since inclusive growth implies that the growth process should benefit the low paid workers and provide decent work, what we observe is that growth process in industry and even in services, is helping only managerial and technical staff securing large increase in their emoluments, but the workers are left high and dry. The Planning Commission has elaborated the social security measures being introduced by the Government, but they help only marginally on account of the large labour force in the country.

The fact of the matter is that profits of enterprises in the organized sector are rising fast, and wage share is declining. The Planning Commission has not applied its mind to generate a process by which wage share in organized sector should improve. Failure to do this will mean 'growth for the few' or 'exclusive growth' and not 'inclusive growth' which is the central theme of the Eleventh Plan. Since the entire additional employment is to be generated by the unorganized sector, then to treat the corporate sector as the engine of growth is meaningless. The country should concentrate its attention towards the unorganized sector as suggested by the National Commission for Enterprises in the Unorganized Sector (2007) headed by Dr. Arjun Sengupta.

Moreover, the Planners themselves admit, "Permanent employment has decreased, although organized sector firms may be increasing their informal employment." The fact of the matter is that even without any change in chapter VB of the Industrial Disputes Act, organized sector firms have succeeded in increasing the share of informal employment to about 23 percent, which is a tacit admission of the fact that the labour laws are observed more in their breach than in compliance, but the Planning Commission is not tired of recommending amendment of labour laws to enlarge and improve employment. But as facts stare us in face, in a labour surplus economy, the tendency to employ contract labour or casual employment is intended to enhance profits at the cost of cutting wage share in value added. This is what has happened during the last decade. Inclusive growth requires an improvement in the share of permanent jobs in the economy and increase in wage share, but what we witness and what is proposed to strengthened, is precisely the opposite.



## 7. POVERTY REDUCTION

In 2004-05, the proportion of the poor was 27.5% – 28.3% for rural areas and 25.7% for urban areas. The total number of poor in 2004-05 was 30.7 million, lower than 32.3 million in 1973-74 by about 19.6

million during the long span of 31 year which cannot be described as a very creditable achievement. Sixty years after independence, more than a quarter of population continue to be poor.

The Planning Commission further states: "There is growing consensus that the poverty line (Rs. 356 monthly per capita consumption for rural areas and Rs. 458 for urban areas in 2004-05) in India is much too low, and continues to be based on consumption basket. If the poverty line was higher, the share of the population below the poverty line would be accordingly higher."<sup>10</sup>

To reconsider and revise the poverty lines, the Planning Commission has constituted an Expert Group whose recommendations, hopefully, would provide acceptable measures of both poverty reduction and the population below the poverty line.

Since poverty is a multidimensional problem, it requires a multi-pronged strategy to tackle it.

Firstly, regions which have large number of poor people include tribal forested regions and rainfed agricultural regions. In these regions, watershed development has to be the crucial instrument for poverty reduction.

Secondly, the poor are concentrated in certain states or regions where land-man ratio is the lowest. In these regions, effective land reforms and provision of agricultural services need special emphasis.

Thirdly, there is a large dependence on casual labour. These workers get low wages and are unable to find employment throughout the year. Most of them belong to SC and STs. A programme like the National Rural Employment Guarantee Programme can provide better wages and enhance the number of working days for this category.

Fourthly, the poor have to be enabled to increase their incomes by diversifying away from agriculture to non-farm work as a source of subsidiary income.

Fifthly, education and skill development among the poor should be enhanced so that they can seek employment in emerging sectors like information technology, and other occupations requiring better skills.

Last but not the least, the structure of production has to be employment generating, especially in non-agricultural occupations. In other words, the Eleventh Plan recommends a three-legged strategy – economic growth, income-poverty reduction through programmes like NREGA and Swarn Jayanti Rozgar Yojana (SJRY) and human capital formation with the help of education and skill development.

The Eleventh Plan has only made a general observation that it intends to reduce poverty by 10 percentage points which implies a reduction from 28 percent to 18 percent. But since it has started the process of revision of poverty line, it has to revise its whole programme of poverty reduction when new norms and findings become available.

10. Planning Commission (2007), *Eleventh Five year plan* (2007-12), Vol. III, p.79.

capital which help to enlarge the productive capacity of a nation. Prof. T.W. Schultz pleading for a revision of the definition of capital writes: "Surely one of the major reasons for the widely held popular belief that economics is materialistic is the over-commitment on the part of economists to a partial concept of capital restricted to material objects. The failure to include the acquired abilities of man that augment his economic productivity as a form of capital, as a produced means of production, as a product of investment, has fostered the retention of the patently wrong notion that labour is capital free and it is only the number of man-hours worked that matters. But .... labourers have become capitalists in the sense that they acquired much knowledge and many skills that have economic value. Clearly what is needed in this connection is an all-inclusive concept of capital."<sup>1</sup>

Although the traditional estimates of capital formation made in India preferred to restrict the term capital formations to additions to the stock of producer good viz., machines, tools, equipment, transport facilities, etc., efforts have been made in recent years to estimate human capital formation as well. We shall therefore, enlarge the definition of capital formation and study both the components of capital formation—physical and human—with reference to India.

### The Process of Physical Capital Formation

There is a close relationship between economic growth and capital accumulation. A silent assumption runs through most of the theories of capital formation i.e., output is limited by the stock of capital at a particular time in a country whether there is abundant labour or not. But it may be emphasized that a high rate of capital formation is usually accompanied by a rapid growth in productivity and income but it would be a folly to pin exclusive faith on this factor alone. Professor Nurkse has aptly put it, "*Capital is a necessary but not a sufficient condition of progress.*"<sup>2</sup> Since capital formation is an essential determinant of economic growth, it is quite necessary to determine the desirable rate of capital formation and also determine the process of capital accumulation. Most of the theories of capital accumulation believe in stepping up the rate of capital formation in a short period of time. The main purpose of this approach is to compress the process of economic growth in a relatively short period.

Professor P.N. Rosenstein Rodan in his theory of the Big Push has emphasised that the philosophy of gradualism will not work in starting economic growth, and that the underdeveloped economy needs to be given a big push. Proceeding '*bit by bit*' will not add up in its effect to the sum total of single bits. A minimum quantum of investment is a necessary (though not sufficient) condition of success.

<sup>1</sup> Schultz T.W., *The Economic Value of Education*, preface, p. x.  
<sup>2</sup> Nurkse, *op. cit.*, p. 1

How can a community achieve a high rate of investment or capital formation? The process of physical capital accumulation is a function of three variables.

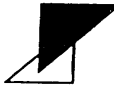
(1) An increase in the volume of real domestic savings so that the resources that would have been used for consumption are released for investment.

(2) The creation of adequate banking and financial institutions to mobilise the savings of the community.

(3) The emergence of an entrepreneurial class which can utilise the community's saving into channels of productive investment or the assumption of the entrepreneurial function by the State in critical areas.

Different economies adopted different ways to boost up the rate of real saving in the community. The bootstraps approach followed by Communist Russia and other centrally planned economies was intended to achieve a high rate of domestic saving by imposing curbs on consumption. Similarly, in the British economy, the same objective was achieved by keeping wages low and ploughing back business and industrial profits for economic expansion. Both these courses are extreme. In India, the emergence of a democratic government and a class conscious labour force would not permit either the use of totalitarian measures to restrict consumption or to keep wages depressed at a very low level for a long time. Consequently, domestic savings alone may not be sufficient for planned investment. A part of investment may, therefore, be financed by the import of foreign capital. External assistance is a short-term measure because, ultimately, the entire burden of economic growth has to be borne by the developing community.

The Indian economy had outlined a path of capital accumulation in which a major part of resources needed for economic development were to be supplied by real domestic savings and a part by inflow of capital from abroad. In order to initiate the conditions of take-off, a higher rate of capital inflow was admitted in the Second and Third Plans, but from the Fourth Plan onwards, an effort was made to progressively reduce the quantum of foreign aid so as to make the economy self-reliant and self-sustaining.



## 2. TREND OF SAVING AND CAPITAL FORMATION IN THE INDIAN ECONOMY

Estimates of physical capital formation in the post-independence period have been prepared mainly by the Central Statistical Organisation (C.S.O.) from time to time.

C.S.O. prepares its estimates by the product method. For this purpose, the estimate is compiled by the type of capital goods viz., 'construction' and 'machinery