Planning in India: Lessons from Four Decades of Development Experience

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This paper argues that planning as practiced in India has in many respects failed to achieve national development objectives over the long term. Four different sets of factors can be identified as probably having contributed to this failure: (1) faulty premises and development strategies, (2) problematic and counterproductive implementation mechanisms, (3) the emergence of powerful interest groups that appropriate public resources and blocked needed policy reforms, and (4) the slowness to learn from experience and consequent lack of flexibility and adaptation. These forces were not mutually independent, and hence their relative importance is difficult to gauge precisely. J. Comp. Econom., December 1990, 14(4), pp. 713—735. The World Bank, Washington, D. C. 20433. © 1990 Academic Press, Inc.

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I. INTRODUCTION

Politicians, the government bureaucracy, academia, and, even to a considerable extent, public opinion in India are imbued with the ideology and mystique of planning. India is probably the only country in the world where planning is still paid such exalted lip service and is taken very seriously by influential people in the intellectual and policy-making establishments. India's Five Year Plan volumes are models of elegance, persuasiveness, and, by the standards of government documents, analytical content. If the quality of

1 The views, findings, interpretations, and conclusions in this paper are those of the author and should not be attributed to the World Bank or its affiliated institutions. Comments from Arvind Panagariya and other conference participants are gratefully acknowledged.
plans on paper were the main determinant of success, India would be rated at or near the top among developing countries.

Yet during its four decades of planned development, India has fallen short of achieving national development objectives, its own, as stated explicitly in the Plans, those that reasonably might have been postulated, given India’s situation in the early 1950s, or what has been achieved by the successful newly industrializing countries or by China. Substantial economic growth has occurred, a large, diversified industrial base has been established, and food security has been attained. But growth has not been rapid enough to eliminate abject poverty; indeed, the absolute number of poor is large and rising, though their share in the total population has declined somewhat (World Bank, 1990b, Chap. 2). The bulk of the labor force is still employed in agriculture, much of it at very low productivity levels. Though industrial growth has picked up in recent years, employment in the organized sector of Indian industry has stagnated. Moreover, most of the industrial sector is still not internationally competitive in terms of cost, quality, and technology, and export performance over the long run has been disappointing. Provision of basic social services like primary education and health to the bulk of the population remains woefully inadequate, as a result of which unacceptably low levels of human capital seriously constrain development.

While it would be unfair to blame all the shortcomings of economic development in India on planning, the important role envisaged for planning in guiding the economy, the massive public resource mobilization effort that occurred under the aegis of planning, and the ambitious goals set for planning at the outset mean that planning has been inextricably linked with Indian development policy and performance. More generally, pervasive government intervention in the economy and a growing public sector have been justified on the grounds of furthering the objectives of planned development. Hence the problems and shortcomings of Indian economic development over the past four decades can be viewed at least in part as manifestations of the failure of planning as formulated, organized, and implemented in India.

Why and how planning in India has failed to achieve national development objectives is the central theme of this paper. Given the complexity of Indian planning and its evolution over time, any explanation must be multidimensional. The paper starts with a brief overview of Indian planning and its record over the past 40 years. Then it assesses the objectives and development strategies pursued, as well as the main premises about economic development that guided Indian planning. Plan implementation, broadly construed, is surveyed next. The emergence of powerful interest groups and their influence on planning is then discussed, along with the seemingly inflexible mind-set behind Indian planning and the slowness to learn from experience, India’s own or that of other countries. A final section of the paper presents some tentative conclusions about the Indian planning experience.
II. OVERVIEW OF INDIAN PLANNING

This section provides general background on Indian development planning and its performance over the past four decades, to serve as a basis for the analysis that follows. The following discussion is brief and far from comprehensive; readers are referred to the literature on the subject as well as to the Plan documents themselves.\(^2\)

*The Politics and Ideology of Planning*

The historical context in which planning emerged in India helps explain its exalted status in the 1950s and 1960s and the continuing lip service paid to it subsequently. Planning had some antecedents from the preindependence period, most notably the so-called Bombay Plan formulated by Indian industrialists, as well as, on the implementation side, the wartime regime of industrial controls (see Mohan and Aggarwal, 1990) and the tendency toward increasingly protectionist industrial policy in the latter decades of the British Raj (Lal, 1988, Chap. 8). British socialism, absorbed by the Indian intelligentsia, favored administrative guidance of economic development, but without the harshness of Stalinist central planning.

The genesis of Indian planning was also related to profound ideological and political concerns. Chatterjee (1989) argues that though it was conceived of as an apolitical force working to further national development objectives, planning was from the start used as a political instrument. As the quintessential expert committee called on to pronounce on issues of national importance, the Planning Commission was in a position to help resolve difficult political debates about development strategy and to enhance national consensus behind the development path chosen by the country's leadership.

Chatterjee also asserts that planning served as a vital form of legitimization for the newly independent Indian state, which inherited its laws, institutional apparatus, and practices from the British. Something was needed to demonstrate the distinctiveness of the new regime from that of the British Raj, and development planning served that purpose well. Moreover, the nationalist critique of British rule was very much a developmental one: the British were at fault because they had not promoted India's economic development and were argued to have harmed the economy.\(^3\) Plan-based development hence became a prime justification of the new regime's existence.

\(^{2}\) There are a number of books on Indian planning extant, of which two of the more recent ones are Chakravarty (1988) and Gupta (1989). An earlier source is Streeten and Lipton (1968). Numerous other works on Indian economic development or political economy discuss planning extensively. Also see Planning Commission (1952, 1956, 1961, 1970, 1976, 1981, 1985).

\(^{3}\) This argument has quite different implications from another justification for independence that might have been used, that British colonialism was inherently wrong even though it may have promoted economic development or was at least neutral in its impact. See Lal (1988, Chaps. 6–10) for a revisionist, guardedly positive evaluation of the legacy of British rule in India.
The status of planning in India was further enhanced by Jawaharlal Nehru’s close personal association with the first three Five Year Plans. Even in later years, this association was frequently alluded to in justifying the continuing importance of planning. For example, in the introduction to the Seventh Five Year Plan, planning was referred to as the “gift of Pandit Nehru to the nation” (Planning Commission, 1985, Vol. I, p. vii) and was also linked to the recently deceased and highly eulogized Indira Gandhi.

The image of Indian development planning, which had been remarkably favorable both internationally and domestically in the early years, began to suffer when the economy faced severe macroeconomic problems in the mid to late 1960s. It was considered by some observers at the time to be going through a crisis (Streeten and Lipton, 1968). Then, in the 1970s, planning, along with other aspects of government administration, became increasingly politicized, as part of the general trend of deinstitutionalization of the Indian state and the Congress Party, as noted by Rudolph and Rudolph (1987). Planning came to be perceived increasingly as a tool used for partisan purposes by the party in power rather than as an instrument for furthering national development objectives. The Planning Commission was to a considerable extent marginalized in the policy-making process, particularly in the 1980's, when power became concentrated in the Prime Minister's Office. By the late 1980s, the planning process was perceived by many to have become largely irrelevant, with the Planning Commission reduced to the role of an allocator of public investment funds and a vetting agency for large investment projects.

The National Front government elected in 1989 has appointed people committed to the revitalization and decentralization of planning and to a renewed emphasis on its policy advisory role as Planning Commission members. The new Planning Commission wants to debureaucratize planning and get away from the focus on approving projects and allocating investment funds. But based on experience so far, the planning process continues to be highly politicized, and the Commission’s role in concrete industrial and agricultural policy-making remains marginal. The theme of decentralization of planning has been under discussion for a number of years, but it remains to be seen whether real progress in this direction will be made under the present government and what implications such decentralization will have for the economy.

The Content of Planning

It is important to delineate what, for the purposes of the analysis in this paper, constitutes planning. Some consideration of how Indian development

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4 Nehru was an active chairman of the Planning Commision during his prime ministership and, according to Chakravarty (1988, p. 3), personally drafted large parts of the Third Five Year Plan.
planning, or development planning in general, relates to the concept of indicative planning is also needed. Perhaps it is best to start by looking at the concrete activities the Indian planning system engages in.

The operational content of India's Five Year Plans consists primarily of investment targets and allocations of investment funds to different sectors of the economy. These are indications of intent, which become actual commitments of funds in the Annual Plans, consonant with the Annual Budgets. At the micro level, the operational role of Indian planning consists of approval of public investment projects for inclusion in Five Year and Annual Plans and of budget allocations for such projects.

The Five Year Plans contain growth targets for the economy as a whole and for major sectors, which are indicative since they are not translated into concrete production directives for firms. The Five Year Plans also state priorities and objectives for the economy as a whole and for individual sectors, as well as quantitative and nonquantitative targets for various aspects of social development, for example, percentage of population below the poverty line and elementary school attendance rates. The increasingly bulky Plan documents serve as useful compendiums on the Indian economy, containing a wealth of information. Finally, there is a host of supporting activities, working groups and their reports, ad hoc committees to look at particular issues, commissioned research efforts, etc.

The main plan implementation mechanisms under the partial control of the Planning Commission have been public investment allocations and project approvals. The massive apparatus of regulatory controls for industry, the guidelines affecting financial institutions, price controls, price supports, and subsidies for agricultural outputs and inputs, and other government interventions can be viewed broadly as plan implementation mechanisms, many directive rather than indicative in nature. However, these instruments and the policies they are supposed to serve have become increasingly divorced from the formal planning process. For example, the partial deregulation of industry in the 1980s was reflected in the Five Year Plans, but it was clearly not initiated by the planning process. Thus it is not entirely appropriate to consider all the administrative controls affecting the Indian economy solely as plan implementation mechanisms.

Indian plans have been tinged with exhortatory rhetoric, which was especially meaningful under Nehruvian auspices in the 1950s and early 1960s. The message of sacrifice of current consumption in favor of development has become weaker in the more recent Five Year Plans, though it is still present. The idea that planning is a national effort in which the people should become fully involved has been persistent in plan rhetoric. Such exhortations ties in with the political and ideological foundations of Indian planning discussed earlier.

In sum, Indian development planning can be viewed as a variant of indica-
tive planning, despite the apparatus of direct controls that has backed it up. It differs from planning in traditional centrally planned economies in that detailed directives to agents on their production and investment activities for the most part are eschewed and because there is a large private industrial sector. It differs from indicative planning as practiced in some of the industrialized market economies in that a large proportion of total national investment is allocated through the planning process and direct controls still play an important role and perhaps most fundamentally because of planning's more ambitious task of achieving rapid economic development, poverty eradication, and major structural changes in the economy.

**The Record**

India's development experience has been too rich and complex to summarize briefly, so only some highlights can be noted here. This is a controversial topic, with diametrically opposed opinions often emerging from the same data. Much depends on the reference point for evaluation. Postindependence economic growth shows up in a favorable light when compared with growth under the British regime, for example. But it is not fair to India's massive planning effort and to the high hopes held for its planned development to not hold it to a high standard of evaluation. Indian economic development should be assessed in relation to the goals set by the planning process itself or the performance of other poor countries that have successfully industrialized, keeping in mind the favorable as well as unfavorable aspects of India's economic situation at the outset.

Aggregate economic growth in India has been substantial, as can be seen from Table 1, but in most periods it has not been sufficient to sustain a rapid rise in per capita incomes or to lift the bulk of the population out of poverty. Indian growth looks mediocre in comparison with that of more-or-less comparable countries on the subcontinent, poor compared with that of China, and dismal in relation to that of the rapidly growing smaller economies of East Asia. The much touted shift away from the "Hindu rate of growth," 3.5% per annum, to a higher growth path, starting in the late 1970s, is evident in the figures in Table 1, and even higher growth rates were achieved in the late 1980s. But higher growth has meant only a modest decline in the incidence of poverty, and moreover, to the extent that growth has been fueled by expansionary fiscal policies, it is now threatened by an increasingly unmanageable fiscal deficit and a substantial current account balance of payments deficit.5

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5 The central government's budget deficit was an estimated 8.5% of gross domestic product in fiscal year 1989 (April 1988–March 1989), while the current account deficit was 2% of gross domestic product (World Bank, 1990b, pp. 15, 25). See Bagchi and Nayak (1990) for a comprehensive discussion of India's fiscal policies and problems.
**TABLE 1**

**INDIAN PLAN PERFORMANCE IN RELATION TO VALUE ADDED TARGETS** (PERCENTAGE GROWTH PER ANNUM IN REAL TERMS)

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<tr>
<td></td>
<td>Target</td>
<td>Actual</td>
<td>Deviation</td>
</tr>
<tr>
<td>National income</td>
<td>2.1</td>
<td>3.3</td>
<td>+1.4</td>
</tr>
<tr>
<td>Agriculture(^a)</td>
<td>2.8</td>
<td>2.0</td>
<td>-0.8</td>
</tr>
<tr>
<td>Manufacturing(^a)</td>
<td>3.4(^c)</td>
<td>6.0</td>
<td>+2.6</td>
</tr>
<tr>
<td>Construction</td>
<td>n.a.</td>
<td></td>
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<tr>
<td>Commerce, transport, and communications</td>
<td>3.5</td>
<td>4.2</td>
<td>+0.7</td>
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<tr>
<td>Other services</td>
<td>4.3(^c)</td>
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<tr>
<td></td>
<td>Target</td>
<td>Actual</td>
<td>Deviation</td>
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<tr>
<td>GDP at factor cost</td>
<td>5.7</td>
<td>3.4</td>
<td>-2.3</td>
</tr>
<tr>
<td>Agriculture(^a)</td>
<td>4.9</td>
<td>2.9</td>
<td>-2.0</td>
</tr>
<tr>
<td>Mining and manufacturing</td>
<td>7.7</td>
<td>4.5</td>
<td>-3.2</td>
</tr>
<tr>
<td>Transport</td>
<td>6.2</td>
<td>4.2</td>
<td>-2.0</td>
</tr>
<tr>
<td>Electricity</td>
<td>9.3</td>
<td>6.2</td>
<td>-3.1</td>
</tr>
<tr>
<td>Construction</td>
<td>8.6</td>
<td>-0.6</td>
<td>-9.2</td>
</tr>
<tr>
<td>Other services</td>
<td>5.3</td>
<td>4.2</td>
<td>-1.1</td>
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\(^a\) Some of the actuals may be preliminary figures, subsequently revised.
\(^b\) Including animal husbandry and related activities.
\(^c\) Including output of small enterprises.
\(^d\) Factory sector only.
\(^e\) Including construction.
\(^f\) All services.

Sources: Planning Commission (1952, p. 84; 1956, pp. 7-8); Gupta (1989, pp. 88–89).
While there was initial success in building up a manufacturing industry base, industrial development was based on protected domestic markets riddled with anticompetitive regulations and controls. Indian industry has been burdened with obsolete technologies, high costs, often uneconomically small scales of production, problems with manufacturing processes and quality, and overmanning and low labor productivity. High import duties and excise taxes have contributed greatly to the high cost structure. Public enterprises, generally more inefficient than private firms, dominated certain basic industries that supplied key inputs for downstream sectors, exacerbating the problem of high costs. It was impossible under these circumstances for much of Indian industry to be internationally competitive. During the period of planned development, India's share in world exports and in world manufactured exports steadily declined.

In agriculture, despite successes related to introduction of Green Revolution technology in some parts of the country, the overall growth rate has been modest. There appear to be major distortions affecting production of different crops (Gulati, 1990), and the trade regime has by and large discouraged agricultural exports. Though there have been considerable changes in the structure of production of the Indian economy, the bulk of the labor force remains (under)employed in agriculture and related activities.

Certain basic social indicators, most notably life expectancy, have improved greatly since independence. Famine prevention measures have been effective in averting widespread starvation in the face of crop failures. But progress in alleviating poverty and in providing basic social services to the poor has been limited. Not only inadequate funding but also poor design of programs and wasteful use of resources have been to blame (see World Bank, 1990b, Chapt. 5 and 6). Despite a massive, multifaceted antipoverty effort, the number of poor is large and growing, 287 million in 1970 and an estimated 322 million in 1988, while the number of severely deprived poor people declined only marginally, from 163 million in 1970 to an estimated 156 million in 1988 (World Bank, 1990b, Annex Tables 6A and 6B). Moreover, it is questionable whether the modest progress made in alleviating poverty in the 1970s and 1980s can be sustained.

Primary education is a noteworthy example of the failure to deliver an adequate package of social services to meet the basic needs of the poor. Though official enrollment figures have shown a steady increase, this data may be unreliable, and in any case severe difficulties have been encountered in trying to increase the percentage of children completing any segment of the educational program. The estimated literacy rate has risen from 17% in 1951 to only 36% in 1981 (World Bank, 1990b, p. 54), though literacy among persons aged 10–14 rose from 23% to 57% over the same period. Literacy rates for the poor and for women have been much lower. This is unacceptably poor long-term development performance, particularly in
view of the constitutionally mandated goal of universal, compulsory primary education within 10 years. Education spending has remained just as skewed toward higher education as it was in the early 1950s.

Overall, a mediocre performance in terms of economic growth over the long run, poor performance in maintaining or enhancing international competitiveness, and seriously deficient performance in alleviating poverty and providing basic social services to the poor add up to a failure of Indian planning to achieve the goals of development. Reference to the obstacles to development in explaining this failure does not take into account the fact that planning was supposed to break through such obstacles, many of which were apparent in the 1950s. Moreover, India also had some advantages from the viewpoint of development. The rest of this paper explores various possible explanatory factors behind the shortcomings of development planning in India.

III. OBJECTIVES AND PREMISES

A natural place to start is objectives and development strategy. Underlying the Indian development strategy have been some persistent misperceptions about the process of economic development and international economic relations, which appear to have contributed in a major way to the failure of Indian planning.

Goals and Strategies

The most fundamental objectives of Indian planning and development policy have remained largely unchanged since the 1950s, though the emphasis and priorities shifted somewhat over time. The First Five Year Plan stated: "the central objective of planning is to create conditions in which living standards are reasonably high and all citizens, men and women, have full and equal opportunity for growth and service. We have not only to build a big productive machine . . . we have at the same time to improve health, sanitation and education and create social conditions for vigorous cultural advance. Planning must mean coordinated development in all these fields" (Planning Commission, 1952, p. 29). These themes were echoed in subsequent Five Year Plans, though some new twists were added.

A number of more specific objectives came to be associated with these fundamental development goals. National self-reliance was repeatedly emphasized in Plan rhetoric as well as in policy actions. It implied striving to gain the capability to produce domestically nearly all goods needed by the

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Indian economy, at almost any cost, with minimal reliance on foreign capital inflows other than concessional aid. The objective of maximizing employment has become very important in its own right. Balanced regional industrial development also has been a major concern, understandable in view of the concentration of industry in a few coastal cities at the time of independence. Similarly, the dominance of foreign capital in some key sectors of the economy and the economic power in the hands of a small number of large Indian industrial houses naturally led to a strong emphasis on preventing excessive concentration of private economic power and reducing foreign ownership in Indian industry. The development of public enterprises in certain critical sectors of the economy was strongly encouraged, partly on the basis of these considerations. Finally, Gandhian concerns about preservation and restoration of traditional handicraft industries, most notably home spinning and handloom-based weaving, sometimes influenced economic policies.

Sectoral priorities changed somewhat over time, but there has been a considerable degree of continuity. The First Five Year Plan came very close to advocating balanced growth, but with some emphasis on completing major irrigation projects to stimulate agricultural development. The Second and Third Five Year Plans epitomized the Mahalanobis model of development with its heavy industry bias. The Fourth Five Year Plan had a strong agricultural orientation, emphasizing technological solutions and provision of modern inputs. Food and energy were a focus of the Fifth Five Year Plan. As can be seen from Table 2, except for the sharp jump in public investment in industry between the First and Second Five Year Plans, broad sectoral investment shares did not change greatly from Plan to Plan.

It is hard to find fault with the ultimate goals put forward in Indian plan documents, since they correspond to the general goals of development. Similarly, there is nothing obviously wrong with the broad sectoral investment shares, though anomalies are more apparent at the subsectoral level. Some of the specific objectives and concrete strategies that have been closely associated with India’s planning effort are problematic, however. Self-reliance as interpreted in India led to inward orientation, uncompetitive costs, stagnant exports, and a widening technological gap with advanced international levels. Import substitution-based industrialization (ISI) served development goals more poorly than an alternative, more export-oriented strategy would have, and moreover, its numerous adverse side effects severely hindered

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7 In recent years the idea of self-reliance has been reinterpreted to mean an economic base that is sufficiently strong and internationally competitive to generate the export earnings required to pay for needed imports of goods that cannot economically be produced domestically. This new perspective avoids the harmful consequences of the narrow interpretation, but it is by no means universally accepted in India.
### TABLE 2

**Sectoral Composition of Public Sector Plan Outlays (Percentage of Total, at Plan’s Constant Prices)**

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<tbody>
<tr>
<td>Agriculture and community development</td>
<td>14.8</td>
<td>11.7</td>
<td>12.7</td>
<td>16.7</td>
<td>14.7</td>
<td>12.3</td>
<td>13.7*</td>
</tr>
<tr>
<td>Irrigation</td>
<td>29.8*</td>
<td>18.9</td>
<td>7.8</td>
<td>7.1</td>
<td>8.6</td>
<td>9.8</td>
<td>9.9</td>
</tr>
<tr>
<td>Power</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry and minerals</td>
<td>4.9</td>
<td>24.1</td>
<td>22.9</td>
<td>24.7</td>
<td>19.7</td>
<td>24.3</td>
<td>26.6</td>
</tr>
<tr>
<td>Transport and communications</td>
<td>26.4</td>
<td>27.0</td>
<td>24.6</td>
<td>18.5</td>
<td>19.5</td>
<td>17.4</td>
<td>16.0</td>
</tr>
<tr>
<td>Social services and miscellaneous</td>
<td>24.1</td>
<td>18.3</td>
<td>17.4</td>
<td>14.7</td>
<td>18.9</td>
<td>17.4</td>
<td>17.2</td>
</tr>
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* Including special area programs.
* Irrigation and power were consolidated into one category in statistics for the First and Second Five Year Plan periods.
* Including coal and petroleum.

efficient industrial development. The employment objective, narrowly inter-
terpreted, has resulted in overmanning and labor rigidity. The pursuit of
balanced regional development has been costly. The public sector, whether
viewed as an end in itself or as an instrument of development policy, has
turned in a disappointing performance. The antipoverty strategy developed
in the 1970s and the 1980s involved heavy reliance on employment pro-
grams, mainly for rural public works, and asset transfers and highly subsidi-
dized credit to the rural poor for acquisition of productive assets. This ap-
proach has been costly, often wasteful in covering far more of the population
than targeted poor groups, and, to a considerable extent, ineffective (see
World Bank, 1990b, Chap. 6).

Pessimistic Premises

Indian development planning has been guided by certain premises about
the development process and the impact of international economic rela-
tions, which for the most part have turned out to be incorrect, based on
India's own experience as well as that of other countries. These misconcep-
tions played a significant role in the choice of development strategies as well
as instruments.

Export pessimism. In the early Five Year Plan periods it was expected that
demand for exports from developing countries would grow relatively slowly
and hence that these countries could not rely on export markets to develop.
This view, which led to inadequate attention to international competitiveness
and export development, has not been borne out by subsequent trends
in world trade or in that of developing countries. India was slower than some
other countries to shift its policy stance. The need for a more stable and
farsighted export orientation was fully recognized only in the 1980s, but the
trade regime continues to have a strong import substitution bias.

Saving pessimism. Private saving was considered inadequate to finance
the higher capital requirements of development. Hence public resource mo-
bilization was to play a major role in generating the needed level of saving.
While the aggregate saving rate of the Indian economy indeed has risen
during the period of planned development, at first sharply and later more
gradually, private saving has contributed by far the largest share of total
saving. Public saving has been anemic, falling sharply in the 1980s.

Investment pessimism. Private industrialists were assumed to be unwilling
or unable to come forward with the lumpy, risky investments needed in
certain key basic industries and infrastructure sectors. This provided a ration-
nale for public sector involvement. But its inefficiency has discredited the

\footnote{See Desai (1988) for a discussion of the adverse impact of ISI on technology adoption and
development in India.}
public sector as a dynamic entrepreneur (see below). Moreover, poor performance and inadequate resource mobilization in the public sector have led in recent years to private industry being called in to manage and help fund major joint sector projects in areas that had previously been largely the preserve of the former, undermining any justification for public investment.

Employment pessimism. It is widely perceived in India that the growth processes of the organized industrial sector inherently involve much lower growth of employment than of output. Employment growth in the organized private industrial sector undeniably has been low in relation to the robust growth of production, but this appears to be primarily the result of disincentives to new hiring that pervade the regulatory apparatus for organized-sector labor, as well as rising compensation levels (see World Bank, 1990b, Chap. 4). Employment pessimism is damaging because it discourages efforts to reform the government regulatory apparatus for labor and leads to costly, wasteful schemes to generate employment in other parts of the economy.

Distrust of multinational companies. This bias, which probably stemmed from the colonial historical legacy, has pervaded Indian thinking about development planning almost from the beginning; it intensified in the 1970s before weakening somewhat in the 1980s. The fear of multinationals and consequent self-imposed isolation have had serious adverse effects, ranging from a hindrance of technology inflows and modernization to a loss of export opportunities and a dearth of technical assistance and other support services.

Distrust of large private industrialists. To a somewhat lesser extent than in the case of multinationals, Indian planning has also been pervaded by skepticism about the developmental role of the organized private sector. The sector’s performance under the regime of controls has often tended to reinforce such beliefs, unfairly since controls were justified in the first place by distrust of the unfettered private sector.

Distrust of the market. Perhaps more fundamental than some of the other misconceptions has been a profound mistrust of the ability of the market mechanism to appropriately allocate resources and further development objectives, particularly those related to equity. The resulting regulation of markets adversely affected their functioning, reinforcing such prejudices. Though real-world markets have numerous imperfections, the appropriate question is whether alternative modes of resource allocation can hope to do any better or even as well. Some market-oriented developing countries have reasonably equitable income distributions, for example, whereas regulatory controls and administrative allocation of resources can lead to badly skewed income distribution.

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* I am indebted to James A. Hanson for this term.
Unwarranted Optimism

Overly optimistic views about certain aspects or instruments of development also have influenced Indian planning and development policies. These have been costly in terms of wasted resources, distorted incentives and systems, and diversion of attention from alternative development paths. The failure to question these rosy scenarios stands out in striking contrast to the skepticism expressed about the role of the market, multinationals, export prospects, etc.

The role of the public sector. A strong belief in the developmental role of the public sector has pervaded Indian thinking and still forms a constraint on efforts to reform or privatize public enterprises. Given the inefficiency of the public sector, this belief and the resulting flow of resources into the sector have been costly and for the most part detrimental to India's development effort.

Small-scale and traditional handicraft industries. Alongside the Mahalanobis view of basic heavy industries as the engine of growth, there was the belief that traditional handicraft activities could serve as a cheap engine of employment generation. This led to an array of incentives and protections for small firms and traditional techniques. The damage done to the textile industry and to textile exports by policies promoting and protecting handlooms is only the most notable example of the harmful impact of this belief. The modern small-scale industrial sector also has been favored, even though there is no strong evidence that small firms are substantially more labor intensive than large ones in many Indian industries (see Little, Mazumdar, and Page, 1987).

Administrative/organizational solutions. There has been a bias in favor of large, nationwide, top-down government programs to solve major social and economic problems, typically involving the creation of major organizational infrastructures. This has resulted in a proliferation of agencies handling different programs which carry very high recurrent costs and are vulnerable to budgetary cutbacks (World Bank, 1990b, Chap. 6). Such programs and their bureaucracies have become entrenched, despite a manifest lack of accomplishments in many cases.

The efficacy of controls. Through much of the history of planning in India, there was a strong, unwarranted belief in the effectiveness of direct controls in furthering development objectives. Recently this control orientation has shifted somewhat in favor of indirect fiscal and other mechanisms, but the control apparatus remains in place and the belief that the government can effectively guide the development of particular industries and even firms remains.

The efficacy of planning. Perhaps the most fundamental of the misconceptions underlying Indian development planning has been the belief in the
effectiveness of planning itself. This attitude has not been shaken by the shortcomings of India's economic performance, and indeed it has been reinforced by the perception that some successful developers like South Korea used certain kinds of planning and government guidance. The unrealistic hopes held out for planning undoubtedly contributed to its being saddled with multiple objectives and excessive tasks.

IV. IMPLEMENTATION MECHANISMS

A variety of instruments were used to implement India's plans. Some of these instruments, either because of their inherent inappropriateness or due to faulty deployment, contributed to the inadequacies of India's development performance. This section briefly discusses the most important ones: the planning apparatus itself, public investment and the public sector, controls over industry, fiscal incentives, and financial sector policies.

The Planning Apparatus

The Five Year Plans and Plan-related documents have been impressive in terms of both quality and quantity of written description and analysis. But the operational side of Plan implementation has primarily involved approval processes and funding decisions for sizeable public investment projects. Some characteristic problems seem to have emerged in this area. Delays in project funding in the face of fiscal constraints and consequent long construction times and an excessively high inventory of projects under implementation are typical consequences. Underinvestment in certain critical infrastructure sectors, such as electric power transmission and, earlier, generation, has been a persistent problem, as has apparent overinvestment in some industries in which India may have no comparative advantage. Financing of projects and division of responsibilities between central and state governments also have been chronic problems.

More generally, the Indian planning and administrative apparatus may be held responsible at least to some extent for propagating and perpetuating some of the misperceptions described earlier. Despite the expertise concentrated in the Planning Commission and related government agencies, questioning of some of the basic myths behind Indian planning has been only limited and occasional. The planning apparatus is also implicated in inadequate flexibility and failure to learn from experience, discussed below.

Public Investment and the Public Sector

Despite some success in building up an infrastructure for industrial development and a deep involvement in heavy industrial subsectors like steel, the public sector has turned in a disappointing performance. Public investment
has generated neither the additional saving nor the high social returns expected. The argument that the public sector had to become involved in critical infrastructure sectors where private entrepreneurs were unwilling to invest is wearing thin as well. The unacceptably low return on public investment projects mean that diversion of national resources to public sector firms for the most part has had a negative impact on aggregate economic efficiency. The public sector has become a drain on the economy rather than a leading sector in development.

A major problem is that public enterprises have been indiscriminately used to promote a multiplicity of different perceived social objectives, sapping their efficiency and dynamism. For example, forcing public enterprises to serve employment objectives at the micro level has led to overmanning, rising real wages, and weak labor discipline. These firms have also been under pressure to establish units in remote locations as part of efforts to boost industrial development in backward areas.

Other problems are related to the way in which public enterprises have been managed and supervised. Appointment of generalist civil servants to top posts for short terms, frequent turnover, and delays in filling many positions all contribute to weak management that has little incentive to promote long-term enterprise development. Government intervention in the affairs of public enterprises has been endemic, and over 800 different guidelines specify in minute detail decisions on many aspects of business activity.

**Industrial Controls**

The problems engendered by the massive apparatus of regulatory controls over industry are well known and do not need to be discussed in detail. Suffice it to say that by the 1970s, their proliferation and complexity had reached the point where any role in promoting the objectives of planning was minimal and in any case unclear. The impact of the addition or subtraction of particular controls also would be hard to evaluate. In sum, the developmental role of industrial controls became at best limited, more likely counterproductive, and in any case impossible to ascertain with any precision.

Most of the controls affecting Indian industry were negative and restrictive in character. They prevented or required administrative approval for actions by firms; they did not for the most part mandate production and investment in a positive sense. Controls have restricted the expansion of small and

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10 See Ahluwalia (1990) for a comprehensive discussion of planning and controls as they affected Indian industry. World Bank (1990a) also looks at issues related to India's industrial regulatory system.

11 This feature distinguishes Indian industrial control mechanisms from the instruments typically used in traditional centrally planned economies.
large firms and diversification by the latter, they have weakened rather than strengthened competition, and they have probably contributed to industrial concentration, contrary to intention. Behavior of industrial firms has been distorted and has become more oriented toward the bureaucracy in many cases than toward business and markets. Petty harassment and redundant or contradictory controls have become pervasive.

In the 1980s some direct controls were considerably weakened, which probably contributed to accelerated industrial growth. But the multiplicity of controls and the overlap and redundancy among them means that the precise impact of this partial deregulation is hard to assess. The government apparatus from which controls emanated has not been disbanded, and much deregulation has consisted of discretionary actions by the control apparatus, which maintained at least nominal authority to intervene.

Fiscal Instruments

Taxes and subsidies have been used as instruments to promote the objectives of planning, but distortions have become so widespread, with layers of rules and exceptions, that neither the net effect of the system as a whole nor the impact of any particular tax or subsidy is easy to ascertain. Subsidies have been costly and poorly targeted, often brought into being and maintained under pressure from the interest groups that benefited from them. Indirect tax rates are high and variable across products and impose high costs on users of taxed inputs. Export subsidies instituted to offset such high costs involve extensive red tape and scope for discretion, leading to lobbying, corruption, and distortions in behavior. The direct tax system is riddled with special cases, exemptions, and loopholes and suffers from low elasticity with respect to income growth in the economy. Tax administration is a serious problem, for example, leading to extensive and increasing reliance on import duties and on excise taxes levied on the relatively small number of large private and public concerns which tax authorities can easily monitor.

Financial Policies

Directed credit and interest rate differentials have been used to promote development objectives. Loans to units in backward areas, to small-scale industry, and to agriculture, among others, carry low, subsidized interest rates. Banks are required to provide a large proportion of their total credit to these and other priority sectors. After lending to the government and to priority sectors is subtracted, only a relatively small proportion of total bank credit is left for truly discretionary purposes.

Directed credit policies and subsidized interest rates have distorted incentives, probably leading to greater-than-optimal capital intensity. Banks' portfolios have been weakened, to the point where some of them would be
financially unviable if they accounted for their bad debts appropriately. Finally, directed credit and interest subsidies would appear to have been largely ineffective in achieving their explicit objectives. For example, the incidence of financial difficulties tends to be higher among small-scale firms assisted by credit from financial institutions than among those which had not received such credit, while capital productivity is lower. The fungibility of funds and the scope for diversion and corruption mean that the ultimate beneficiaries of directed and subsidized credit may differ greatly from the designated target entities.

The nationalization of commercial banks was seen as a measure to promote objectives with respect to income distribution and market structure. This radical step achieved some short-term objectives, most notably extending the banking system into rural areas and weakening rural moneylenders by means of an onslaught of cheap and easy credit. However, the long-term effects of nationalization may well have been highly detrimental. Competition within the financial sector became virtually nonexistent. Nonrepayment of loans by firms became a more public issue than previously, and write-offs of bad debts and winding-up of unviable delinquent creditors probably became even more difficult and time consuming.

V. INTEREST GROUPS

The idea that planned development in India has been stymied by vested interest groups in the society, whose narrowly conceived, short-term interests were opposed to development-oriented policies, is not a new one. The defenders of planning have sometimes used such ideas to explain shortcomings in performance (see, for example, Bardhan, 1984). But some of the most important interest groups came into being or became strong and well organized during the period of planning.

Initial Successes and Failures

In the 1950s the new regime had behind it a fairly strong national consensus and an opportunity to rid the country of perceived antidevelopment vested interest groups. Within a few years after independence the power of the princely states and their rulers was broken. Though land reform was far from complete and got bogged down in many areas, in most parts of the country the truly large landholdings were broken up. Later, population growth and generational subdivision of holdings led to a steady decline in the average size of plots. Multinational companies were severely weakened as an effective interest group by restrictions culminating in the Foreign Exchange Regulation Act of 1973. Large domestic industrial houses were subjected to increasing restrictions leading eventually to the Monopolies and Restrictive Trade Practices Act of 1969, but these restrictions apparently were not suc-
cessful in reducing their influence or share in industrial activity. Overall, considerable though incomplete success was achieved in curbing preexisting interest groups at the pinnacle of traditional Indian society.

There were also some failures. The inability to effectively restrict the large industrial houses probably on balance was not harmful to India’s industrial development, however. What was harmful of course was the creation of lucrative protected markets as part of the ISI strategy. The national consensus forged by the Congress Party Government in the 1950s turned out to be something of a veneer with respect to the caste, communal, and regional distinctions that fragment Indian society. These for the most part remained intact and reemerged on a more politicized basis as the Congress-based consensus weakened. One interest group retained by the new regime almost without change was the government bureaucracy, including the police and military, with the Indian Civil Service, renamed the Indian Administrative Service or IAS, at its apex. More generally, there was no revolutionary break with the old society, which would have weakened or destroyed many of the existing interest groups.12

Interest Groups under Planning

Some of the interest groups that emerged or grew stronger under the post-independence regime of planning have become major obstacles to development. They have been much harder for the government to deal with effectively than some of the preexisting interest groups. Democratic politics allowed interest groups to enhance their position through direct political action as well as by influencing the government bureaucracy.

Bullock capitalists. The political power of generally well-to-do rural owner/cultivators, who, though still directly involved in farm management, usually hire substantial amounts of wage labor, has become increasingly apparent. Land reform did not affect this tier of rural society, and moreover these farmers benefited from Green Revolution technology and subsidized provision of agricultural inputs. Increasingly well organized, bullock capitalists have demonstrated the ability to protect and aggrandize their interests. They do not pay income tax, they often do not pay off bank loans or electricity bills, and they get highly subsidized irrigation water. Owner/cultivators seem able to block any direct attacks on their interests in these and other areas.

12 Olson (1982) puts forward the hypothesis that in a stable society, interest groups increase in number, become increasingly entrenched, and appropriate an increasing share of the society’s surplus. Wars, revolutions, and other calamities may paradoxically have a beneficial impact on economic development by wiping out the existing interest groups and allowing the society to start off with a temporarily clean slate.
**Government bureaucracy and IAS.** The complex, highly discretionary set of controls over industry provided opportunities for the government bureaucracy to strengthen its position in the power structure and to reap rewards. Subsidized or rationed provision of production inputs like irrigation water also allowed bureaucrats to gain benefits, both collectively and individually.\(^\text{13}\) Cases of government employees engaging in strikes or other forms of agitation to preserve the complex and discretionary nature of the regulatory framework are not unknown. The IAS has become a powerful force within India's government bureaucracy. It has successfully propagated the self-serving view that government positions carrying substantial responsibilities need to be staffed by generalists from its ranks. Despite the recommendations of several committees set up to look into the problems of the civil service, the IAS has maintained a near-stranglehold on high-level positions.\(^\text{14}\)

**Public sector employees.** More generally, employees in government administration as well as those in India's growing public enterprise sector have become powerful, often well-organized interest groups. Protection of incomes against inflation and guaranteed permanent employment have become untouchable parameters for the bulk of public sector employees. Overmanning has been ubiquitous; any attempt at rationalization under these circumstances has little hope for success.

**Organized private sector employees.** Regular workers in sizeable private companies in India have generally appropriated benefits similar to those of public sector employees. Most of them are protected against inflation through dearness allowance. Legal restrictions against retrenchment of labor have become increasingly severe: in principle firms with 100 or more employees are not allowed to close plants or lay off workers without permission from the local government. Unions have resisted improvements in the legal and regulatory framework for labor relations.

It has been argued by a number of scholars that interest groups have become increasingly successful at appropriating surplus from the public economy, thereby reducing public investment and retarding India's development progress (see, for example, Bardhan, 1984, Chap. 8). The fiscal crisis India slipped into in the 1980s certainly reflects a tightening gridlock among interest groups, none of whose demands on public sector resources can be refused easily. When interest payments, subsidies, defense, and government salaries are taken into account, there are hardly any budgetary expenditures left to cut, except for plan-based investment spending, which therefore becomes highly vulnerable in periods of fiscal stringency.

\(^{13}\) Wade (1984, 1985) has documented the entrenched corruption found in the Indian irrigation bureaucracy.

\(^{14}\) See Mehta (1989) for an interesting survey-based study of the attitudes of government bureaucrats at the upper and middle levels.
Perhaps even more important than the drain on public resources is the impact of interest groups on government policy and administrative practices. For example, the IAS has by and large successfully resisted periodic attempts to give more emphasis to specialists in the government bureaucracy. As a result the government is run primarily by generalists, but it is not at all clear that such a staffing pattern is optimal from the perspective of development policy design and implementation. Perhaps more important than the resources siphoned off by organized private sector employees in the form of higher wages and benefits is their ability to hinder retrenchment and exit of industrial firms, which creates potent disincentives to hiring of additional labor in the organized sector.

VI. SLOWNESS TO LEARN FROM EXPERIENCE

An important failing has been the slowness to learn from development experience and the resulting lack of flexibility and adaptability. Some of the inappropriate objectives, predilections, and implementation mechanisms of Indian planning were taken up by many developing countries in the 1950s and even in the 1960s, but the successful developers were much quicker than India to change their strategies and get rid of inappropriate instruments. For example, the import substitution-oriented and antiexport character of the trade and industrial policy regimes has not been substantially altered even after the importance of export development and international competitiveness became widely recognized.15

Some major steps backward were taken, as late as the 1970s and 1980s. Examples include reservation of numerous industrial products for exclusive production by small-scale enterprises, beginning in the 1970s; legal restrictions against retrenchment of labor, instituted in the late 1970s and early 1980s; nationalization of most commercial banks in 1969 and 1980; and investment subsidies for units locating in backward areas, starting in 1971. While each of these actions may have had specific motivations and justifications, taken as a group they complicated and worsened the government regulatory framework.

Another striking feature is the frequency with which old ideas and approaches, discredited by experience in other countries as well as in India, have been resurrected and put forward as solutions to current problems. Product reservation for small-scale industry, which had been trimmed back, may again become a cornerstone of government policy to promote small-

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15 Instead, export promotion schemes have striven to compensate exporters for the cost disadvantages from which they suffer, an approach that has not been entirely effective and has led to serious distortions in behavior.
scale industrial development. The Central Investment Subsidy for backward areas was abolished in 1988, but it has now been brought back.

VII. CONCLUSIONS

To sum up, four different sets of factors can be identified as probably having contributed to the inadequate performance of development planning in India: (1) problematic premises and development strategies, (2) faulty implementation mechanisms, (3) interest groups that appropriated public resources and blocked policy reform, and (4) slowness to learn from experience and a consequent lack of flexibility and adaptation. The relative importance of these different explanatory factors and the interrelationships among them are hard to gauge with any precision. Clearly they were not entirely independent, and development strategy partially dictated the instruments chosen. But even when strategies changed, the old instruments were often left intact. Finally, mind-sets and inflexibility in Indian planning are closely related.

Given these interdependencies, it would be difficult to single out any one factor as the dominant cause of the failure of Indian planning. It is also doubtful whether any single measure would break the deadlock into which planning has fallen. If any aspect should be emphasized, it is probably the need for greater adaptability and more rapid learning from experience.

With the relaxation of industrial licensing controls and partial deregulation in the 1980s, Indian planning has become far more indicative than in the past, especially as it relates to private industry. But numerous price anomalies and structural imbalances still distort private business decisions and adversely affect efficiency. Certain basic industries dominated by public sector enterprises have not been deregulated and generate high input costs for downstream industries. There is still some predilection toward direct government interventions at the micro level and considerable instability in micro-level industrial policies. In the social sectors, large nationwide programs, top-down bureaucratic management, and organizational proliferation continue to be the rule. The resource crunch increasingly impinges on development expenditure decisions, and interest groups continue to block many needed reforms. Progress is certainly possible, as has been demonstrated in recent years, but it will likely continue to be slow and uneven.

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