

Lesson-14

Economic Concepts and Planning

14.1 General Introduction of National Income-

We use the term 'income' many times in everyday life. Income is the measurement of welfare of a person or a family. We know that income is not the only determiner of welfare but it is one of the most important factors among many other. The income of a person or family shows the physical life, social status and economic progress to a large extent. Just like a person or family the income of a nation can also be determined. The calculation of National Income for economy of the country is important in following ways:

- (a) National Income is the indication of the economic progress and economic condition of a country.
- (b) We can compare the economy of other countries on the basis of national income.
- (c) Contribution of different sectors and their relative importance in economy can be found out from national income.
- (d) On the basis of National Income estimates, future policies can be formed for economy.

14.1.1 National income-

National Income is the monetary measurement of economic achievement of an economy. It is defined as monetary value of all products and services during a particular period (one financial year) in a country. Remember that the value of end product and services is included in national income. It is not included in the process of production. It is important to note that National Income is the total income of the sources of production and not the income of citizens.

Fiscal year - India as a financial year from 1 April to 31 March.

Production - Creation of utility and value addition is production only.

All factors of production by joint efforts, produce final goods and services of such value, value addition equal to that is created. The value is distributed among the owners of factors of production. The factors of production are given reward for their factor services. Rent to land, Wages to labourers, Interest to capital and profit. to entrepreneur are received. The payment received by all factors of production equals to value addition by all the factors. Thus what ever is produced is received as factor income by the factors of production. Therefore, gross national products equals gross national income for a country. It may be simply said that national income is the sum of income received by all factors of production for their contribution in the production process during a financial year (generally a year) in a country. National income may be shown as the sum of domestic factor income and net factor income from abroad.

Household means income refers to the means of income generated within the country's domestic borders.

There are many forms of national income, which are called national income concepts. All these concepts have specific scientific names, meanings and utilities. Among them are GDP, net domestic product, gross national product, net national product etc. Even though they are separated from each other, all these concepts exhibit the income of an economy. Generally, the gross domestic product is used to measure the

performance of an economy. The sum of the monetary values of all the final goods and services produced in the domestic borders of the country during a financial year is called GDP.

14.1.2 Per Capital Income

National income is not an appropriate measure of financial well-being. It does not adjust the effect of population change. Per capita income, in comparison to national income, is more appropriate to major economic well-being and economic development when the impact of change in population is taken for calculation. To calculate per capita income, national income of the country is divided by the population of that country.

$$\text{Per capital Income} = \frac{\text{National Income}}{\text{Population}}$$

14.1.3 Calculation of National Income in India-

There was no government agency to calculate National Income before independence in India. The first National Income was calculated by Dada Bhai Nauroji in 1868. After this Findlay Shiraj, Dr. V.R. Rao, R.C. Desai estimated national income. All these scholars used different methods and basis for the calculation of national income. But they did not have reliable data and information so could not apply statistical methods in calculation.

After independence National Income Committee was formed under the Chairmanship of P.C. Mahalonobis in August 1949. This committee submitted its first report in 1951 and final report in 1955. This work of calculating National Income was handed over to the Central Statistical Organization (CSO) and it has been doing the work of calculating National Income since 1955.

14.2 Sectors of Economy-

we find people involved in different economic activities. Some activities produce goods and other provide services. These activities go on around us at the time. How can we understand them? One way to

understand them is to classify them in different categories on the basis of some important criteria. These categories are also known as various sectors of economy.

14.2.1 Three Sectors of Economy-

Primary Sector – It produces goods by using natural resources in direct form. There are many activities based on direct use of natural resources as cotton cultivation. It is a seasonal crop. We depend on natural factors like rainfall, sunlight and climate for the growth of cotton plants. So cotton is a natural product. In the same way dairy, mining provide products by using natural resources. These are also primary activities. It is also known as agriculture allied sector.

Secondary sector- In this sector products are transformed into other forms through manufacturing process. It is next to Primary Sector. Goods are manufactured. It can be done in some factory, workshop or at home. For example, spinning from cotton fiber and then weaving textile. Sugar and Jaggery are made from sugarcane. We make bricks from clay and then we build houses and buildings with bricks. This sector is associated with different industries so it is also called Industrial Sector.

Tertiary sector- It is quite different from the first two sectors. They make no products. These activities help in the development of Primary and Secondary. Products of first two sectors need to be transported to retail or whole sale dealers for sale (by trucks and trains). Sometimes products need to be stored in warehouses. We also need to have telephonic communication, correspondence and banking facilities for smooth trade. These are some examples of the activities of this sector. They also provide service instead of producing goods. So it also known as Service Sector.

There are also certain indispensable services which do not help in making any production. The services of teachers, doctors, washermen, hairdressers, cobblers, advocates, administrators and accountants

are among them. Nowadays, the new services based on information technology like internet cafe, ATM booths, e-kiosks, call centers and software companies are also important.

14.2.2 Historical Changes in Sectors-

It has been noticed in most developed countries that Primary Sector was very important in the initial stage of development. Gradually, changes came in agriculture system and this sector became prosperous. There was more production than in the past. Many people got engaged in other occupations. The number of craftsmen and traders increased. Activities of purchase and sale increased manifold. Many people joined transport, administrative and army services. Yet most of the goods were produced by Primary Sector and most people were employed in this sector.

Factories came into existence with new methods of manufacture, their number increased and people began to work in them. This secondary sector became most important from production and employment point of view because products were cheap in factories. Work started to be done in extra time also. There has been change from Secondary sector to Tertiary Sector in last 100 years in developed countries. Importance of service sector increased in total production. Most of the workforce is employed in service sector.

14.2.3 Increasing Importance of Tertiary Sector in Production-

Production has increased in all sectors of economy in last few years but highest increase in production has been noticed in tertiary sector. So this sector emerged as the largest sector in production in India replacing the primary sector. Although contribution of all the three sectors in gross domestic products has changed yet there has been no important change in employment. Why did employment not shift from primary sector? It is so because there was no creation of employment opportunities in secondary and

tertiary sectors. With the result about 50% workforce is employed in Primary Sector mainly in agricultural sector and its contribution in gross domestic product is even less than 15%. On the other hand more than 85% contribution in gross domestic product is from secondary and tertiary sectors. These sectors provide employment to 50% people.

14.3 Economic Growth and Economic Development-

Countries with higher income are considered more developed than those with low income. More income means the availability of more goods to fulfil human needs. As different nations have different size of population so for comparison among nations total income is not a suitable criterion. By comparing total income we cannot determine how much the average person is earning. So average or per capita income is given more importance than national income. With change in time increase in National Income and per capita income is defined as increase in economic growth. National Income and per capita income are very useful in calculating development level and progress of a country. But it is not the suitable index to show the development and welfare progress of a country.

When we see personal ambitions and targets we notice that people not only want good income, but also require security, dignity, equality, freedom etc. So income is not the only important ingredient for the development of the nation. We cannot get developed social structure and good environment only by money. It was considered that people will be happy with increase of national income.

But it is now believed that economic development is not the only objective. There should be improvement in social, political and all other fields of life. Economic development means positive change in standard of living along with economic progress.

14.3.1 Economic Progress -

Economic progress is the increase in income or actual production of a country along with time. It indicates the increase in National Income and per capita income. It is the direct assessment of changes in economy. Generally it is seen as measurement of development. Economic progress is the development of natural, physical, human and capital resources of a country. By increase in quality and its best use highest standard of income and production can be achieved. Economic progress is a long term quantitative process.

There are no qualitative dimensions of economic progress. It is a value less concept. No attention is paid to changes in social, political and institutional conditions.

14.3.2 Economic Development-

Economic development is a broader concept than economic growth. It is a process in which net National Income and per capita income increase in an economy and there are also favourable changes in social status, cultural form, Institutional structure, techniques of production and economic structure. Economic development assures economic, social and political welfare of the nation. There are also qualitative aspects of economic development. These qualitative aspects cannot be expressed by increase in net National Income and per capita income. The sum total of economic development and favourable changes in social cultural, political and institutional structure is called economic development. Economic progress is an important aspect of economic development so there can be no development without progress. Economic development is considered more suitable than economic progress in measuring welfare and standard of development of a nation.

In development of social science when it was considered that the level of income and per capita income were insufficient criteria for measuring economic development, some other concepts of development like

continuous development and human development became popular.

Continuous Development or Successive Development or Sustainable Development:-

Continuous development fulfils the present needs without compromising with capability of satisfying the needs of future generations. It is such an economic development which is done without harming natural resources. The development which is done maintaining natural resources is called continuous development.

Assimilated Development-

Assimilated development assures that benefits of development should reach the people of all the sections of the society. Many people are deprived of the benefits of development due to gender, linguistic, regional differences, poverty, and physical disability. Assimilated development insists on including deprived sections of society in the mainstream of development. It is a broad concept which favours equality of income, opportunity and human rights in every aspect of life.

Human Development-

The concept of human development came into existence in 1990 with the formation of Human Development Index. Under the leadership of Mehboob Ul Haq an index was prepared to measure the level of the human development by including three major aspects-knowledge, health (life expectancy) and standard of living (per capita income) by United Nations Development Programme. This index was prepared keeping in mind that last criteria of evaluating the results of development should be expansion of alternatives of mankind. In this procedure economic development is a means and not an end. This index made the issue of development from money oriented to human oriented. It is an effective index in measuring the level of development and welfare comparing between different nations.

14.4 Planning in India-

We want to use resources, time and money in such a way that maximum work can be performed by using these resources in a proper manner. First of all an outline is made to conduct any family function. After this the person or family tries to use resources in the best possible manner.

Just like a person or a family, a nation also wants to fulfil its many objectives by using the resource available in best possible way. Planning is a technique in which efforts are made to achieve objectives by distributing favourably the resources and fixing targets on priority basis. Planning has some important factors. First it has well defined definite aims and objectives. Secondly, estimation of available resources is done. Thirdly— after estimation, their distribution and use in various targets is important. Economic planning can be defined in many ways but in simple words, economic planning is the science of achieving certain social objectives by using available economic resources. Important decisions in economic planning are taken by a central authority. It determines management, speed and direction.

Planning is a technique of using available resources and achieving targets. A nation uses this technique in achieving different objectives like family planning, Economic Planning etc. When the technique of planning is used in the development of economy or to achieve desired economic objectives, it is called economic planning.

Technique of economic planning at the national level was first adopted by Soviet Union. Soviet Union declared central planning in 1928 and the path of economic planning was adopted through Five Year Plans. First Five Year plan proved to be a revolution in itself. After independence, India also joined the list of nations who adopted the model of economic planning at national level to achieve rapid economic development.

The idea of economic planning influenced

the Indian scholars and intellectuals greatly. Many scholars presented several suggestions and supported the path of development during the decade of 1930 to 1940. The first effort in the history of Indian economic planning was made by Shri M. Vishveshvaraiya in 1934. He presented a programme in his book 'Planned Economy of India' for planned development in India.

After independence the government of India formed the Planning Commission under a resolution in March 1950. The main objective of the commission was to evaluate the resources of the country and make plans for the effective and balanced use of resources. Another important function of the commission was to fix various objects on priority basis and suggest the allotment of resources.

Planning Commission was an advisory and Constitutional institution. In August 1952 govt. of India established a National Development Council. The main objective behind its establishment was to include states and union territories in planning and execution and decentralization of planning process. National Development Council approves the plans prepared by Planning Commission and reviews the progress of plans from time to time. State chief ministers, administrators of deputy Governors of union territories are also its members. It is also a Constitutional and advisory board. Planning Commission works under the supervision of National Development Council.

14.4.1 Objectives of Economic Planning in India-

Planning in India was adopted as an important tool for transformation of the country. Before independence planning was adopted to fulfil the dreams for a good economic future of the country. In every five year plan many aims and objectives were fixed and efforts were made to achieve them. Main objectives of planning in India are given below in brief -

1. to achieve the objective of economic development
2. to solve the problem of poverty
3. to reduce the inequality in income. To establish social justice by ending inequality of income and poverty,
4. to make maximum use of human resources and provide more employment opportunities,
5. to achieve self dependence in all sectors specially in production of industrial raw material and food grains,
6. modernization of traditional Indian economy,
7. expansion of education and health services and achieve condition of social welfare,
8. to achieve economic stability because economic development is meaningless without economic stability,
9. rural development expansion of social and community services and increase in energy production,
10. to end regional inequalities.

14.4.2 Five Year Plans in India-

Twelve Five Year Plans have been made so far under the policy of planned economic development.

S.No.	Five Year Plan	Fixed Time
1.	First Five year plan	1st April 1951 to 31st March 1956
2.	Second Five year plan	1st April 1956 to 31st March 1961
3.	Third Five year plan	1st April 1961 to 31st March 1966
4.	Four Five year plan	1st April 1969 to 31st March 1974
5.	Fifth Five year plan	1st April 1974 to 31st March 1979
6.	Sixth Five year plan	1st April 1980 to 31st March 1985
7.	Seventh Five year plan	1st April 1985 to 31st March 1990
8.	Eight Five year plan	1st April 1992 to 31st March 1997
9.	Nineth Five year plan	1st April 1987 to 31st March 2002
10.	Tenth Five year plan	1st April 2002 to 31st March 2007
11.	Eleventh Five year plan	1st April 2007 to 31st March 2012
12.	Twelveth Five year plan	1st April 2012 to 31st March 2017

Indo-Pak war, continuous droughts, price-rise and depletion of resources interrupted the planning process so three annual plans were made between 1968 and 1969. This period is called as Plan Holiday.

The then Janata government ended the five year plan before time in 1978 and made continuous yearly plans from 1978 to 1983. In 1980 the Congress government ended this continuous plan and announce sixth

five year plan from 1 April 1981 to 31 March 1985. The financial year 1978 – 1979 was included in fifth plan and 1979-80 plan was considered as a one year plan. In the same way, the eighth five year plan could not be implemented due to rapidly changing political situation.

The basis of twelfth five year plan was assimilated and sustainable rapid development. The revised target of this plan was to achieve 8% growth rate.

There were also some other achievable targets like abolition of poverty, reducing unemployment and expansion of health and education services.

Rolling Plan-

Under this plan a current plan is updated and reviewed after a certain period of time. It has flexibility of changing targets, estimates, resource allocation and duration of current plan.

Niti Aayog -

Niti Aayog or National Institution for transforming India was formed on 1st January 2015 under a resolution by the central cabinet. At present the Chairman of Niti Aayog is Honourable Prime Minister Shri Narendra Modi, Vice Chairman is Shri Arvind Pangadiya and the Chief Executive Officer is Shri Amitabh Kant.

All the state Chief Ministers and Deputy Governors of union territories are the members of Niti Aayog. Niti Aayog is providing technical advice along with making long term policies and strategic programmes for the government of India. It acts as a think tank for the government of India under its reform agenda. Government of India has formed Niti Aayog by discontinuing planning commission. It is an important change. All the states should work for the welfare of the nation and Niti Aayog is the best platform for it. It encourages cooperative federation. There are two main points in the formation of Niti Aayog - Team India Hub and Knowledge and Innovations Hub. Team India Hub joins state governments with Central Government. Knowledge and Innovation Hub strengthens the capacities of think tank of Niti Aayog. Niti Aayog is a revolutionary reform based on co operative federation.

Important Points:-

1. National Income is the total of income in a financial year by contributing in production process by all means.
2. Gross domestic product is the total monetary value of all goods and services

- during a financial year in the country.
3. National Income divided by population is per capita income of a country.
4. Central Statistical Organization performs the work of calculating National Income in India
5. In an economy the activities of production of goods and services have been classified in three parts – primary, secondary and tertiary sector.
6. Agriculture, animal husbandry and other produce are included in primary sector.
7. Manufacturing and construction work are included in Secondary Sector.
8. Tertiary Sector is known as Service sector. It is associated with production of services.
9. Economic progress means increasing National Income and per capita income. It is a quantitative concept.
10. Economic development means increasing National Income and per capita income along with Favourable Changes in economic structure, institutional structure, and technical and social outlook.
11. Economic planning is a science of achieving a fixed target by utilizing economic resources.
12. Twelve Five Year Plans have been made in India so far This work of making plans is done by Planning Commission.
13. Planning commission was replaced by Niti Aayog on 1st January 2015.
14. Niti Aayog works as an advisor to government, makes different policies and programmes.

EXERCISE

Very Short Answer Type Questions-

1. Define national income.
2. Define Gross Domestic Product.
3. When was the National Income Committee formed for calculation of national income?
4. Who performs the work of calculating National Income in India in the present

- times?
5. Into how many sectors has economic been classified? Write their names.
 6. Name three services included in tertiary sector.
 7. Explain the meaning of economy development.
 8. Write the name of the book written by Shri M. Vishvehvaraiya.
 9. Which Five Year Plan was ended one year before completion?
 10. Who is the Chairman of Niti Aayog?

Short Answer Type Questions-

1. Why should National Income be calculated? Give any three reasons.
2. Who made the first calculation of National Income and when?
3. Mention the names of three scholars who made calculations of national Income before independence.
4. Explain the concept of per capita income.
5. Explain the increasing importance of Tertiary Sector in India?
6. Explain the concept of economic progress.
7. How is the concept of economic development more elaborate than economic progress?

8. Explain the concept of economic planning.
9. what suggestions were made for planning before independence?
10. What is the tenure of twelfth plan? What are its major objectives?

Essay Type Questions-

1. What is national income? Explain the relation between national income and national product.
2. Describe in detail the different sectors of economy.
3. Describe the changes in the importance of different sectors of economy along with economic development.
4. What were the objectives of adopting technique of economic planning in India?
5. Write an essay on Niti Aayog.