3. Indicative Planning

Background : Indicative plannihg was adopted by the 8th plan as a framework against the backdrop of: slow capital formation, vibrant growth of the private sector, persisting regional disparities and neglect of rural economy, lack of technological progress, poor performance of trade and the public sector, and finally, the positive impact of liberalisation efforts of the seventies and the eighties.

Indicative planning was conceptualised by France after World War-II. Known as the Monet Plan, the indicative plan of France helped the Government to identifgKhose sectors of the economy which needed development. In France, indicative planning is complWientary to the market - making up for its weaknesses guiding it and ensuring that its operations are compatible with the country's social cohesion and economic growth.

Salient Features of Indicative Planning :

- It is a way to promote rapid and orderly economic growth without the coercion of the bureaucracy. It is a way to reconcile economic planning with a decentralized decision-making private enterprise.
- The two fundamental features of indicative planning are: providing a promotional stimulus by raising incentives to invest or to adopt production in new directions and, group agreement about objectives of economic growth established through consultation between industry and the Government.
- Indicative planning pinpoints areas in which advance action should be taken to avoid serious bottlenecks and also identify sunrise industries.
- In Indicative planning, attempts are made to influence the market forces by fiscal / monetary means and leaving the market forces to primarily determine the resource allocations.
- A core plan provides the economic vision and there are several complementary plans on sectors and regions which are linked to the core plan.
- The indicative plan will have clearly defined goals for each sector and the Government will be concerned with only removing the bottlenecks, orienting, regularising and accelerating development. There is clear prioritisation of goals leading to reduction in production bottlenecks and hence making possible higher rates of growths.
- The emphasis will be to develop the core sector through allocation of funds and ensuring growth of economy through policy packages, and giving greater responsibility to states for the development of the social sector.
- The plan will provide a clear picture of effects of changes in Government policy on the entire economy. The implications of contemplated changes in Government policies are made apparent. This leads to more rational decisions and more coherent policies. This is of great importance since uncertainties about future demand tend to reduce investment and expansion in the private sector. Indicative planning will thus reduce such uncertainties and provides a climate conducive for higher investment and rapid expansion.
- The Government will lay down parameters for decision making instead of taking all the decisions about investment. That is, the Government guides, rather than directing/regulating the private sector.

Continued Relevance of Planning: Planning is relevant in the context of

- Centre-State coordination in crucial areas of development like infrastructure investment which also requires FDI and hence centre has to persuade states to frame appropriate policies to invite FDI into such areas
- The need-to direct investment to backward regions by corporate sector and FDI
- To plan for environmental goals
- In the context of globalization, state has to plan'to create appropriate institutions, legal services and

also provide information into private sector to safeguard the interests of different sections of the society

- Planning is relevant for inter-sectoral balance in economic growth
- Planning by state is required for inclusive and equitable growth.

THE 12th 5-YEAR PLAN (2012-17)

The Draft Approach to the 12th 5-year plan was approved.by the NDC in January 2013. The theme of the Approach Paper is Faster, Sustainable and more Inclusive Growth. The key features of the 12th 5-year plan are spelt out in 25 crore indicators, for rapid, sustainable and inclusive growth.

Economic Growth: The real GDP growth to be 8.2% p.a. 'which is to be achieved by a 9% growth in the last 2 years of the plan. In the first year of the plan (2012-13) the growth is likely to be 6.7%. The agricultural growth rate to be 4% p.a. and manufacturing to grow at 10% p.a. Every state to achieve a higher average growth rate in the 12th plan comparable to the 11th plan.

Poverty and Employment: The poverty rate based on Head Count Ratio of consumption to be reduced to 10% of the population by the end of the plan. Around 50 million new work opportunities to be created in the non-farm sector. Around 50 million people to be endowed with skills to meet the skill needs of the economy.

Education : The mean years of schooling to be raised to 7 years by end of 12th plan. 2 million new additional seats to be created in higher education aligned to the skill needs of the economy. To eliminate gender and social gaps in school enrolment (i.e. between girls/boys, between SC's / ST's Muslims and the rest of the population.

Health: To reduce Infant Mortality Rate to 25 / 1000 and maternal mortality rate to 1/1000 live births. To raise child sex ratio to 950 by the end of the plan. To reduce Total Fertility Rate to 2.1 by end of the plan. To reduce under nutrition of children aged 0-3 years to half of the prevailing levels by the end of the plan.

Infrastructure: To increase investment in infrastructure to 9% of the GDP by the end of the plan. To increase gross irrigated area from 90 million ha to 103 million ha by the end of the plan. To provide electricity to all villages and reduce Aggregate Technical and Commercial Losses in power sector to 20% by end of the plan. To connect all villages with all weather roads by the end of the plan. To upgrade national and state highways to the minimum two-lane standard by the end of the plan. To complete eastern and western dedicated freight corridors by the end of the plan. Increase rural tele-density to 70% by the end of the plan. To ensure that 50% of rural population has access to piped water supply and that 50% of gram panchayats achieve the Nirmal Gram status by the end of the plan.Environment arid Sustainabiiitv: To enhance forestry by 1 million hectare each year, add 30,000 mw of renewable energy capacity, reduce emission intensity of GDP by 25 to 20% over 2005 levels by 2020, all by the end of the 12th 5-year plan.

Service Delivery: To provide banking services to 90% of India's households by end of 12th 5- year plan. Major subsidies and welfare related beneficiary payments to be shifted to direct cash transfer using Aadhar linked bank accounts.

The 12th 5-year plan proposes that"70% of investment will be by the private sector. The plan outlay for the centre will be 47, 69,841 crore (around 6.98% of GDP. It was 5.96% of GDP in 11th 5-year plan). The outlay for the states is put at 37,16,385 crore, coming to 5.44% of GDP (it was 5% of the GDP in 11th 5 year plan). The investment rate to be 35% of the GDP in the last year of the plan. The current account deficit to be kept at an average of 2.9% of the GDP for the entire 12th 5-year plan. The private sector investment in infrastructure to be 48% of the estimated 56.3 lakh crore from 38% in the 11th 5-year plan. Merchandise exports are targeted to grow at 17% p.a. in the 12the 5- year plan.

GROSS DOMESTIC SAVINGS IN THE INDIAN ECONOMY

The savings rate of any economy influences economic growth by affecting the investment rate and also the demand for goods/services. The factors affecting savings rate in the Indian economy are:

- Inflation - low levels of inflation promote savings as the prices of goods/services are lower.
- Taxation levels - modest levels of direct and indirect taxes not only promote savings by keeping the prices of goods/services lower, but also by leaving more money with the people in the form of savings after paying direct taxes.
- Economic growth rate - high levels of economic growth increase the per capita income and hence promote savings.
- Financial sector policies - these refer to the interest rates and money supply factors. If the interest rates are lo«r, they promote savings by high growth rate of economy due to high levels of investments. ^Role of capital markets - if the capital markets perform well on a sustained basis, they attract more investment by the people and hence accelerate the growth rate and hence increase the per capita incomes of the people.

  Composition of Gross Domestic Savings in India: Gross Domestic Savings includes :

- Public Savings which are savings in government administration, savings of public sector enterprises and savings of statutory corporations of the government (like Posts and Telegraphs).
- Private Savings-which are household savings and private corporate savings (include savings of cooperative societies).

Trends in Gross Domestic Savings in the Plan Period:

- IN 1950-51 tine savings rate was 10% of GDP. The savings rate of the economy rose to an all time high of 36.85% of GDP in 2007-08, dropping to 32.3% in 2010-11.
- Much of the increase in savings is due to rise in private savings.
- The composition of household savings is increasingly showing a shift towards financial savings from savings in physical assets.
- In the recent times, the savings of PSE's has begun to improve due to public sector reform.
- Government dissavings have increased due to high growth rate of non-developmentai expenditure by government.
- The savings rate picked up sharply beginning in the second half of 80's due to relatively rap j economic growth, liberalisation of economy, growth of capital markets and improvement - the financial sector.

Trends In Public Savings : In the initial decades of planning (1950-1977), public savings increased due to greater tax effort. After 1977, public savings declined continuously. The only component in public savings that has showed a positive trend is savings o f non-departmental enterprises and corporations of the government. There has been huge' dissavings in government. The public savings were negative in the period 1998-2002. Public sector savings were minus 2.04% in 2001-02 turned positive to 2% in 2005-06 and reached a high of 5% of GDP in 2007-08. The public savings dropped sharply to 1.7% of GDP in 2010-11, hence contributing to overall drop in savings rate of the economy. This was because of the excess government spending on the stimulus package to boost the-economy due to the financial crisis. Public savings and corporate savings reached an all time high in 2007-08.

Trends in Private Savings : Household savings make up bulk of private savings. Household savings as a percent of GDP have remained at around 22% to 23% of GDP since 1999- 2000. The share of private savings in gross domestic savings has always improved very sharply since 1950-51. There has been a decline in net financial savings of households from 10.6% of GDP n 2007-08 to 10% in 2010-11, to 7.8% of GDP in 2011-12, the lowest in 11 years. The largest component of household savings is in the form of currency and bank deposits. Household savings are increasingly being invested in financial rather than physical assets,. Savings by the private corporate sector have been improving in the post-reform period.

The following brings out the changes in the composition of the gross domestic savings in the period of planned economic development. In 1950-51, household savings accounted for 69.7% of the gross domestic savings while private corporate savings accounted for 10.1% and public sector savings around 20%. The share of household savings in gross domestic savings has come down from 80% in 2002-03 to around 60% in 2010-11. Most of the household savings are in the form of bank deposits The share of household savings in capital markets has come down from a high of 9% of their total savings to less than 8% today. Around 50% of household savings are in the form of bank deposits and around 32% of household savings are in the form oUnsurance premiums and pension amounts. Private corporate savings dropped from 9.4% of GDP i®007-08 to 7.9% in 2010-11. The high growth of per capita income at 7.2% per anum in 2002-03 to 2007-08 compared to 3.7% p.a. in 1992-93 to 2002-03 was an important factor in the high growth rate of savings. The high savings rate was in turn creating the basis of higher growth of the economy in this period.

A noticeable trend in Indians savings and investment rate is the sharp increase in the savings in the investment rate but also a sharp increase in the investment rate. The following clearly brings out these trends.

Trends in Savings & Investment Rate : The investment rate fell to below 30% of GDP in 2011-12, for the first time since 2004-05. The investment rate reached a high of 38% in 2007- 08 before dropping to 35.1% in 2010-11. The rise of the investment rate closed the savings - investment gap. In fact, the investment rate exceeded the savings rate in all the years beginning in 2004-05 till 2010-11.

Year	Savings (% of GDP)	Investment Rate (% of GDP)
1999-00	24.8	25.9
2004-05	32.4	32.8
2005-06	33.4	34.7
2006-07	34.6	35.7
2007-08	36.8	38.1
2008-09	32.0	34.3
2009-10	33.8	36.6
2010-11	32.3	35.1
2011-12	30.8	

It is clear from the above that the savings - investment gap has closed and the investment rate has exceeded the savings rate. The sharp increase in savings and investment rate in the Indian economy in the recent times is because of factors such as

1. Doubling of per capita income growth rate.
2. Good growth rate of the economy.
3 Large capital inflows into India in the form of FDI and FII receipts.
4. A declining dependency ratio i.e. a fall in the population of the old and also of those below the age of 15 years along with an increase in the number of workers.
5. Tax rates have come down hence increasing household savings and private corporate savings
6. Good performance by the industrial sector with higher profits.

Trends in Domestic Savings in 2011-12: The domestic savings rate of economy in 2011-12 was 30.8% of the GDP. The decline in savings is due to drop in household financial savings from 10.4% in 2010-11 to 8% in 2011-12, decline in private corporate savings from 7.9% in 2010- 11 to 7.2% in 2011-12'and a further drop in public savings from 2.6% in 2010-11 to 1.3% in 2011- 12.