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# Economic Development Trends in India

by Professor M. R. Hazaray, Bombay \*

**On August 15, 1972, India celebrated the 25th anniversary of its Independence. It is therefor appropriate to give on this occasion an account of India's past achievements and failures in view of its striving still more tenaciously towards a balanced economic development in the years to come.**

**T**he Constitution of India, passed and adopted by Parliament on January 26, 1950, stated in its directive principles of state policy that: "The state shall strive to promote the welfare of the people by securing and protecting as effectively as it may a social order in which justice, social, economic and political, shall inform all the institutions of national life." It continues declaring that "the state shall in particular direct its policy towards securing (a) that the citizens, men and women equally, have the right to an adequate means of livelihood; (b) that the ownership and control of material sources of the community are so distributed as best to subserve the common good; (c) that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment."

## First and Second Five-Year Plan

In order to work out measures for the realisation of these grand aspirations laid down in the Constitution of the country, a Planning Commission was set up in March 1950. This Commission presented a draft of the First Five-Year Plan for the period April 1951 to March 1956, which was also implemented. Though the main long-term objective of the First Five-Year Plan was to initiate a process of planned economic development, the first three years of the First Plan were devoted to the solutions of pressing problems stemming from partition, rehabilitation of refugees and the effects of World War II and the Korean war.

An outlay of Rs 20,000 mn, later increased to Rs 24,000 mn, was proposed in the First Plan for the public sector.<sup>1</sup> Together with an estimated investment of Rs 16,000 mn in the private sector this outlay was expected to lead to an 11 p.c. increase in the national income. The country's investment rate was to be raised from 5 p.c. to 7 p.c. in order to overcome the century old stagnancy.

The objectives of the First Plan were largely fulfilled. The national income rose by 18.4 p.c. over the period. Agricultural production increased by 22 p.c., industrial production went up by 39 p.c., production of capital goods rose by 70 p.c. and that of consumer and intermediate goods by 34 p.c., respectively. Rural reconstruction was undertaken through community development projects, and the socio-economic infrastructure was sought to be generally strengthened. All this progress took place while the Indian population steadily went on increasing at a rate between 2.2 and 2.4 p.c. per annum.

The Second Five-Year Plan (1956–1961) aimed at a higher rate of increase in the national income (5 p.c. as against 3.5 p.c. in the First Plan), further at a rapid industrialisation, at the creation of large employment opportunities through the encouragement of small-scale and cottage industries and at the reduction of the existing glaring inequalities of incomes and wealth. The financial size of the Plan was extended in order to double the total investment compared to the First Plan.

Over the period of the Second Plan the national income increased by 20 p.c. Industrial production recorded a 41 p.c. increase, while agricultural production showed an increase of 20 p.c. only. The overall rate of investment increased from 8 p.c. to 11 p.c. at the end of the Plan.

## Undue Emphasis on Industrialisation

At the beginning of the Plan some 5.3 mn persons were estimated to be unemployed, 2.8 mn in the rural areas and 2.5 mn in the urban sector. Under the condition of a population growth rate between 2.5 and 3 p.c. some 10 mn persons were expected to enter the labour force. The necessity of population planning had somehow escaped the attention of the planners with the consequence that no effective family planning measures were

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<sup>1</sup> 1 US-\$ = 7.20 Rs.

undertaken. The Plan therefore envisaged the creation of 8 mn new jobs outside the agricultural sector. Another 1.6 mn persons were expected to be absorbed by agriculture and allied industries.

The Second Plan laid rather undue emphasis on rapid industrialisation and neglected the development of agriculture. This neglect resulted in recurrent food shortages which in turn necessitated heavy dependence on foreign aid, much to the chagrin of the country in times of national emergency. The programme of rapid industrialisation included, on the one hand, the increase of production capacities of iron, steel, heavy chemicals, heavy engineering industries, machine building industries and nitrogeous fertilizers, and, on the other, the expansion of capacities of industries such as aluminium, cement, chemical pulp, dyestuffs, phosphatic fertilizers and essential drugs. Besides, it aimed at the modernisation and reequipment of important industries like cotton, textiles, jute, sugar and at the full utilisation of existing industrial capacities.

During this period steel capacity was built up to the extent of 4.5 mn tons; power capacity increased two and a half times over; railways carried 50 p.c. more traffic and gained in comfort; rural reconstruction proceeded apace through the nation-wide cooperative movement. These achievements seemed significant viewed against the background of rising commodity prices and a veritable foreign exchange crisis occasioned by deficit financing of development.

### **Setback by Two Wars**

The Third Five-Year Plan (1961–1966) comprised the same objectives but put the marks up. The financial volume of the Plan was doubled again. Since there were serious limitations to the mobilisation of resources both internal and external by India this meant inflationary financing. However, the rate of investment during the Third Plan rose from 11 p.c. to about 15 p.c. at the end of the Third Plan.

The Third Five-Year Plan ran into several difficulties from its very inception. During the period the country had to go on war twice: Once in 1962 during the Chinese-Indian conflict and again in 1965 when the country was drawn into armed conflict with Pakistan. This necessitated stepping up the defence outlays and led to inflationary pressures in the economy. The country once again slid back into stagnation and in addition suffered delays in securing foreign credits by virtual suspension and postponement of foreign assistance. Defence needs caused a setback to the country's steadily rising development efforts.

Finally the drought years 1965–66 brought down the national income by 6.5 p.c. at one swoop. On the whole, however, national income at constant prices increased at the compound annual rate of about 3.5 p.c. over the period of the first three Five-Year Plans.

On account of these calamities the formulation of the Fourth Plan was very much delayed. But the idea of planning was not given up. Three annual plans for the years 1966–67, 1967–68 and 1968–69 were formulated and executed before the Fourth Five-Year Plan was officially launched on April 1, 1969.

### **The Green Revolution**

Total investment during the three annual plans failed to boost up the rate of economic growth. In the meanwhile prices of foodgrains soared. Wages and salaries had to be increased both in the public and private sector in order to maintain the real wages that existed in 1964–65. Consequently the saving-income ratio declined and new investment in industries received a setback. The famine years of 1964–65 and 1965–66, the substantial reduction of investment in the public sector, the Government's hardened attitude towards control of monopolistic elements in the economy, the new industrial policy leaning towards nationalisation, and the reduced foreign aid — all these factors conspired to cause an inflation-ridden recession.

The desperate economic situation was gradually relieved by the advent of the green revolution which was taking place since 1967–68. In the meantime India has enjoyed four successive bumper crops. The new strategy of farming in the form of better seeds, fertilizers, insecticides, modern storage facilities and implements has paid rich dividends. The country has become nearly self-sufficient in the supply of foodgrains. Production of foodgrains exceeded 94 mn tons in 1968–69 and reached in 1971 its record height of 108 mn tons. In that year India could not only feed its own increasing population but could also take care of about 10 mn refugees from the later Bangla Desh.

But in spite of the spectacular success on the agricultural front, the annual rate of increase of real income has over the period between 1964–65 and 1971–72 not exceeded 3 p.c. as against 4.1 p.c. between 1950–51 and 1964–65 (at 1964–65 price level). The growth rate of industrial production failed to go ahead. According to the mid-term appraisal of the Fourth Plan neither the growth rate in output nor the rate of increase in savings and investments are at present reassuring.

There has been a steep fall in the savings ratio from about 11 p.c. achieved in 1965–66 to about 8 to 9 p.c. in 1971–72. A similar drop of the investment ratio has been witnessed from 13.4 p.c. in 1965–66 to about 9 to 10 p.c. in 1971–72. The growth rate in exports has averaged only 5 p.c. during the Fourth Plan period as against the target of 7 p.c. The net foreign capital inflows have been diverted from real investment to unproductive expenditure with the effect of extraordinary price rises.

It is also worthwhile to recall here that it was hoped at the time of the First Plan that the real national income would be doubled by 1970–71 and the per capita real income would be doubled by 1977–78. The real national income has indeed doubled today; but the per capita real income has increased only by 33 p.c. over the last 20 years. During the same period the country's population has increased by some 200 mn people.

Nevertheless, India has achieved a good deal of qualitative progress in the first development decade, even though the quantity may not look impressive. For example in the sixties the percentage of literacy has gone up from 15 to 30 p.c. of the total population. Though the birth rate has remained more or less stable the death rate has come down from 27 to 16 per thousand, and the average expectation of life has gone up from 32 to 50 years.

In the Fifth Plan (1974–1979) the Government of India is determined to make a frontal attack on the worst forms of poverty in the country. It is intended to improve the lot of some 220 mn people, who represent about 40 p.c. of its total population now living below the poverty line. The Fifth Plan envisages a 6 p.c. rate of growth in the national income and in the per capita income from Rs 475 at present to Rs 600 per annum at the end of 1979 (at current prices, according to conventional estimates).

#### **Failure of the Mixed Economy**

This will, however, entail an outlay to the order of Rs 500,000 mn as against the available sums of about Rs 320,000 mn. The resource mobilisation on the part of the Government would be difficult if not altogether impossible, unless it makes an all-out effort to reduce government expenditure, to raise the profitability of the public sector ventures and to root out corruption in the administrative departments.

After the split in the mammoth National Congress Party, India again found itself at the cross-roads as it did in 1947 on the eve of independence. For the last twenty years freedom from foreign yoke

did not result in the much desired freedom from hunger for millions in India in spite of the overall planning of economic development. The philosophy of a mixed economy has failed to produce the necessary results. National and international private monopolies which run a substantial part of organised economic activity have turned the market economy into a system which under the conditions of prevalent glaring inequalities of incomes and wealth is distorting the production structure and diverting national resources to satisfying the demand for luxuries of the small upper segment of the society. A fully competitive market cannot be developed as long as the large private monopolies dominate the economic system. The government regulatory control mechanism will continue to be ineffective and fail in the end under such circumstances.

#### **Positive Aspects of Economic Planning**

On the other hand, it is not possible to maintain that planning in India has utterly failed. For it is always better to have planned and failed than not to have planned at all. Although it is largely true that planning in India over the last two decades has not brought about any perceptible change in the living standards of the masses in India, it must be admitted that it did produce an impact however mild on the fatalistic attitude of the Indian masses towards their wretched environments. The Indian economy has definitely moved forward from its one-and-a-half century old position of a dependent colonial economy. Unfortunately the country has not cast off its legacies of the past such as corruption in the bureaucratic administration and unenlightened entrepreneurship which join hands in making quick profits from shortage-oriented speculative rather than from productive activities, that could in the long run supply socially desirable goods and services.

The overall strategy of Indian economic planning, although basically sound, could not become fully operative under the old conservative institutional set up. The institutional pattern of the economy was changed on the periphery. Efforts to carry through land reforms and to nationalise some industries did not lead to any basic structural change in the economy in a sense that all the productive forces for the attainment of rapid economic development were released within the prescribed time limit. In more recent years there has been a substantial change in the attitude of the country's political élite. They seem to have understood the gravity of the nation's poverty and also seem to have realised that the problem is insoluble unless the incomes-prices policy is pursued in all seriousness.