Academic Script

Introduction

On 14 August 1947, Nehru had declared: "Long years ago we made a tryst with destiny, and now the time comes when we shall redeem our pledge. The achievement we celebrate today is but a step, an opening of opportunity, to the great triumph and achievements that await us." He reminded the country that the tasks ahead included "the ending of poverty and ignorance and disease and inequality of opportunity". These were the basic foundations on which India embarked upon its path of development since gaining independence in 1947.

The leaders of independent India had to decide among other things, the type of economic system most suitable for our nation, a system which would promote the welfare of all rather than a few. There are different types of economic systems and among them, socialism appealed to Jawaharlal Nehru the most. It is not possible in a democracy like India for the government to change the ownership pattern of land and other properties of its citizens in the way that it was done in the former Soviet Union. Nehru, and many other leaders, thinkers of the newly independent India sought an alternative to the extreme versions of capitalism and socialism. India would be a socialist society with a strong public sector but also with private property and democracy; the government would plan for the economy with the private sector being encouraged to be part of the plan effort.

An overview of the economic developments during the period of 1947-1980

After Independence, our country was built on socialist principles, as the first prime minister, Jawaharlal Nehru sought to emulate the Soviet Union, which seemed to be doing better than the rest of the west that was ravaged by World War II. By the time India won its independence, the impact of the two-century long British colonial rule was already showing on all aspects of the Indian economy. The agricultural sector was already saddled with surplus labour and extremely low productivity. The industrial sector was crying for modernization, diversification, capacity building and increased public investment. Foreign trade was oriented to feed the Industrial Revolution in Britain. Infrastructure facilities, including the well-known railway network, needed upgradation, expansion and public orientation. Prevalence of rampant poverty and unemployment required welfare orientation of public economic policy. In a nutshell, the social and economic challenges before the country were enormous.

Nehru followed the path of state controlled industrialization, active intervention, central planning and mandatory licensing of all businesses.
In 1950 the planning commission was set up with the Prime Minister as its chairperson. The era of five year plans had begun.

THE GOALS OF FIVE YEAR PLANS

A plan should have some clearly specified goals. The goals of the five year plans are:

- Growth
- Modernization
- Self-reliance
- Equity

Due to limited resources, a choice has to be made in each plan about which of the goals is to be given primary importance. Nevertheless, the planners have to ensure that, as far as possible, the policies of the plans do not contradict these four goals.

The goals of Indian planning

Growth

It refers to increase in the country's capacity to produce the output of goods and services within the country. It implies either a larger stock of productive capital, or a larger size of supporting services like transport and banking, or an increase in the efficiency of productive capital and services. A good indicator of economic growth, in the language of economics, is steady increase in the Gross Domestic Product (GDP). The GDP is the market value of all the goods and services produced in the country during a year. It is necessary to produce more goods and services if the people of India are to enjoy a richer and varied life.

The GDP of a country is derived from the different sectors of the economy, namely the agricultural sector, the industrial sector and the service sector. The contribution made by each of these sectors makes up the structural composition of the economy.

Modernisation

To increase the production of goods and services the producers have to adopt new technology. For example, a farmer can increase the output on the farm by using new seed varieties instead of using the old ones. Adoption of new technology is called modernisation. However, it also refers to changes in social outlook such as the recognition that women should have the same rights as men.

Self-reliance

A nation can promote economic growth and modernisation by using its own resources or by using resources imported from other nations. The first five five-year plans gave importance to self-reliance which means avoiding imports of those goods which could be produced in India itself. This policy was considered a necessity in order to reduce our dependence on foreign countries, especially for food. It is understandable that people who were recently freed from foreign domination should give importance to self-reliance. Further, it was feared that dependence on imported food supplies, foreign technology and foreign capital may make India's sovereignty vulnerable to foreign interference in our policies.

Equity

A country can have high growth, the most modern technology developed in the country itself, and also have most of its people living in poverty. It is important to ensure that the benefits of economic prosperity reach the poor sections as well instead of being enjoyed only by the rich. So, in addition to growth, modernisation and self-reliance, equity is also important: every Indian should be able to meet his or her basic needs such as food, a decent house, education and health care and inequality in the distribution of wealth should be reduced.

Achievements of the first five five year plans (1950-1980) in the field of agriculture, industry and trade and the extent to which they succeeded in attaining these goals.

AGRICULTURE

During the colonial rule there was neither growth nor equity in the agricultural sector. The policy makers of independent India had to address these issues which they did through land reforms and promoting the use of HYV seeds which ushered in a revolution in Indian agriculture.

Land Reforms:

At the time of independence, the land tenure system was characterised by intermediaries (variously called *zamindars, jagirdars* etc.) who merely collected rent from the actual tillers of the soil without contributing towards improvements on the farm. The low productivity of the agricultural sector forced India to import food from the United States of America (U.S.A.). Equity in agriculture called for **land reforms** which primarily refer to change in the ownership of landholdings. Steps were taken to abolish intermediaries and to make the tillers the owners of land. The idea behind this move was that ownership of land would give incentives to the tillers to invest in making improvements provided sufficient capital was made available to them.

Land ceiling:

It was another policy to promote equity in the agricultural sector. This means fixing the maximum size of land which could be owned by an individual. The purpose of land ceiling was to reduce the concentration of land ownership in a few hands. The abolition of intermediaries meant that some 200 lakh tenants came into direct contact with the government — they were thus freed from being exploited by the *zamindars*. The ownership conferred on tenants gave them the incentive to increase output and this contributed to growth in agriculture. However, the goal of equity was not fully served by abolition of intermediaries. In some areas the former *zamindars.*
continued to own large areas of land by making use of some loopholes in the legislation; there were cases where tenants were evicted and the landowners claimed to be self- cultivators (the actual tillers), claiming ownership of the land; and even when the tillers got ownership of land, the poorest of the agricultural labourers did not benefit from land reforms. The big landlords challenged the legislation in the courts, delaying its implementation. They used this delay to register their lands in the name of close relatives, thereby escaping from the legislation. Land reforms were successful in Kerala and West Bengal because these states had governments committed to the policy of land to the tiller. Unfortunately, other states did not have the same level of commitment and vast inequality in landholding continues to this day.

The Green Revolution:
At independence, about 75 per cent of the country's population was dependent on agriculture. Productivity in the agricultural sector was very low because of the use of old technology and the absence of required infrastructure for the vast majority of farmers. India's agriculture was vitally dependent on the monsoon and if the monsoon fell short the farmers were in trouble unless they had access to irrigation facilities which very few had. The stagnation in agriculture during the colonial rule was permanently broken by the green revolution: this refers to the large increase in production of food grains resulting from the use of **high yielding variety (HYV) seeds** especially for wheat and rice. In the first phase of the green revolution (approximately mid 1960s up to mid 1970s), the use of HYV seeds was restricted to the more

affluent states such as Punjab, Andhra Pradesh and Tamil Nadu. Further, the use of HYV seeds primarily benefited the wheat- growing regions only. In the second phase of the green revolution (mid-1970s to mid-1980s), the HYV technology spread to a larger number of states and benefited more variety of crops. The spread of green revolution technology enabled India to achieve self-sufficiency in food grains; we no longer had to be at the mercy of America, or any other nation, for meeting our nation’s food requirements.

INDIAN INDUSTRY

Economists have found that poor nations can progress only if they have a good industrial sector. Industry provides employment which is more stable than the employment in agriculture; it promotes modernisation and overall prosperity. It is for this reason that the five year plans place a lot of emphasis on industrial development. At the time of independence, the industrial base was narrow — largely confined to cotton textiles and jute. There were two well-managed iron and steel firms — one in Jamshedpur and the other in Kolkata — but, obviously, we needed to expand the industrial base with a variety of industries if the economy was to grow.

Market and State in Indian Industrial Development: The big question facing the policy makers was — what should be the role of the government and the private sector in industrial development? At the time of independence, Indian industrialists did not have the capital to undertake investment in industrial ventures required for the development of our economy; nor was the market big enough to encourage industrialists to undertake major projects even if they had the capital to do so. It is principally for these reasons that the state had to play an extensive role in promoting the industrial sector. In addition, the decision to develop the Indian economy on socialist lines led to the policy of the state controlling the commanding heights of the economy, as the Second Five Year plan put it. This meant that the state would have complete control of those industries that were vital for the economy. The policies of the private sector would have to be complimentary to those of the public sector, with the public sector leading the way.

Industrial Policy Resolution 1956 (IPR 1956): In accordance with the goal of the state controlling the commanding heights of the economy, the Industrial Policy Resolution of 1956 was adopted. This resolution formed the basis of the Second Five Year Plan, the plan which tried to build the basis for a socialist pattern of society. This resolution classified industries into three categories.

1. The first category comprised industries which would be exclusively owned by the state.
2. The second category consisted of industries in which the private sector could supplement the efforts of the state sector, with the state taking the sole responsibility for starting new units.
3. The third category consisted of the remaining industries which were to be in the private sector.

Although there was a category of industries left to the private sector, the sector was kept under state control through a system of licenses. No new industry was allowed unless a license was obtained from the government. This policy was used for promoting industry in backward regions; it was easier to obtain a license if the industrial unit was established in an economically backward area. In addition, such units were given certain concessions such as tax benefits and electricity at a lower tariff. The purpose of this policy was to promote **regional equality**.

Even an existing industry had to obtain a license for expanding output or for diversifying production (producing a new variety of goods). This was meant to ensure that the quantity of goods produced was not more than what the economy required. License to expand production was given only if the government was convinced that the economy required the larger quantity of goods.

Small-scale Industry: In 1955, the Village and Small-scale Industries Committee, also called the Karve Committee, noted the possibility of using small-scale industries for promoting

rural development. A 'small-scale industry' is defined with reference to the maximum investment allowed on the assets of a unit. This limit has changed over a period of time. In 1950 a small-scale industrial unit was one which invested a maximum of rupees five lakh; at present the maximum investment allowed is rupees one crore.
It was believed that small-scale industries are more 'labour intensive' i.e., they use more labour than the large-scale industries and, therefore, generate more employment. But these industries cannot compete with the big industrial firms; it is obvious that development of small-scale industry requires them to be shielded from the large firms. For this purpose, the production of a number of products was reserved for the small-scale industry; the criterion of reservation being the ability of these units to manufacture the goods. They were also given concessions such as lower excise duty and bank loans at lower interest rates.

TRADE POLICY:

IMPORT SUBSTITUTION

In the first five plans, trade was characterised by what is commonly called an **inward looking** trade strategy. Technically, this strategy is called **import substitution**. This policy aimed at replacing or substituting imports with domestic production. For example, instead of importing vehicles made in a foreign country, industries would be encouraged to produce them in India itself. In this policy the government protected the domestic industries from foreign competition. Protection from imports took two forms: tariffs and quotas. Tariffs are a tax on imported goods; they make imported goods more expensive and discourage their use. Quotas specify the quantity of goods which can be imported. The effect of tariffs and quotas is that they restrict imports and, therefore, protect the domestic firms from foreign competition.
The policy of protection is based on the notion that industries of developing countries are not in a position to compete against the goods produced by more developed economies. It is assumed that if the domestic industries are protected they will learn to compete in the course of time. Our planners also

feared the possibility of foreign exchange being spent on import of luxury goods if no restrictions were placed on imports. Nor was any serious thought given to promote exports until the mid-1980s.

Effect of Policies on Industrial Development: The achievements of India's industrial sector during the first five plans are impressive indeed. The proportion of GDP contributed by the industrial sector increased in the period from 11.8 per cent in 1950-51 to 25.02 per cent in 1980-81. The rise in the industry's share of GDP is an important indicator of development. The six per cent annual growth rate of the industrial sector during the period is commendable. No longer was Indian industry restricted largely to cotton textiles and jute; in fact, the industrial sector became well diversified by 1980's, largely due to the public sector. The promotion of small-scale industries gave opportunities to those people who did not have the capital to start large firms to get into business. Protection from foreign competition enabled the development of indigenous industries in the areas of electronics and automobile sectors which otherwise could not have developed.
In spite of the contribution made by the public sector to the growth of the Indian economy, some economists are critical of the performance of many public sector enterprises.

State enterprises continued to produce certain goods and services (often monopolising them) although this was no longer required. An example of the same is Provision of telecommunication service. The government had the monopoly of this service even after private sector firms could also provide it. Due to the absence of competition, even till the late 1980s, one had to wait for a long time to get a telephone connection.
Another instance could be the establishment of Modern Bread, a bread-manufacturing firm, as if the private sector could not manufacture bread! (In 2001 this firm was sold to the private sector.)
The point is that no distinction was made between
(i) what the public sector alone can do.
(ii) what the private sector can also do.

For example, even now only the public sector can supply national defence and free medical treatment for poor patients.

The private sector can manage hotels well, yet, the government also runs hotels. The state should get out of areas which the private sector can manage and the government may concentrate its resources on important services which the private sector cannot provide.
Many public sector firms incurred huge losses but continued to function because it is very difficult, almost impossible, to close a government undertaking even if it is a drain on the nation's limited resources. This does not mean that private firms are always profitable (indeed, quite a few of the public sector firms were originally private firms which were on the verge of closure due to losses; they were then nationalised to protect the jobs of the workers). However, a loss-making private firm will not waste resources by being kept running despite the losses.

The need to obtain a license to start an industry was misused by industrial houses; a big industrialist would get a license not for starting a new firm but to prevent competitors from starting new firms. The excessive regulation of what came to be called the **permit license raj** prevented certain firms from becoming more efficient. More time was spent by industrialists in trying to obtain a license or lobby with the concerned ministries rather than on thinking about how to improve their products.

The protection from foreign competition is also being criticised on the ground that it continued even after it proved to do more harm than good. Due to restrictions on imports, the Indian consumers had to purchase whatever the Indian producers produced. The producers were aware that they had a captive market; so they had no incentive to improve the quality of their goods. Competition from imports forced our producers to be more efficient.
The public sector should be evaluated on the basis of the extent to which they contribute to the welfare of people and not on the profits they earn.

Summary

on 15 August 1947, India woke to a new dawn of freedom. Finally, we were masters of our own destiny after some two hundred years of British rule: the job of nation building was now in our own hands. The progress of the Indian economy during the first five plans was impressive indeed. Our industries became far more diversified compared to the situation at independence. India became self- sufficient in food production thanks to the green revolution. Land reforms resulted in abolition of the hated zamindari system. However, many economists became dissatisfied with the performance of many public sector enterprises. Excessive government regulation prevented growth of entrepreneurship. In the name of self-reliance, our producers were protected against foreign competition and this did not give them the incentive to improve the quality of goods that they produced. Our policies were 'inward oriented' and so we failed to develop a strong export sector.