THE ECONOMIC PERFORMANCE OF INDIA DURING THE FIRST TWO FIVE YEAR PLANS AFTER INDEPENDENCE

By

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ABSTRACT

The problems of poverty and economic backwardness afflict most of the countries of the third world today, as much as they did in the immediate post war period, when they became free from the colonial rule. The increasing distance in the levels of living of the people of these countries, and those of the economically advanced nations, has for quite sometime now, occupied the minds of the economists and political leaders alike, at the national and international levels.

To deal with the problems of poverty and economic backwardness, a large number of the countries of the third world embarked on programmes of planned development in the early 50's with India being the pioneer among them. She started phased plans of five year duration beginning with the first Five Year Plan in 1950-51. The major theme of these plans has been to build a "socialist pattern of society" in India, and to attain economic self-sufficiency in the shortest possible time. To fulfill these objectives, Indian planners mooted a strategy of building a strong industrial base through a network of basic and heavy industries.

This work is a study of the achievements and failures of the first two Five Year Plans, in-so-far as the attainments of their short period and long term goals are concerned. An attempt is also made to analyse the important performance lags of the plans, underline their causes and to suggest measures to avoid their recurrence in future, through appropriate policy measures.

CONTENTS

INTRODUCTION

India had a stagnant economy at the time of her Independence. To remove stagnation, the new Indian government initiated a process of planned development, starting with the first Five Year Plan in 1950-51. To date, she has completed almost a quarter century of planned development with some significant achievements and dismal failures. It is the purpose of this study to appraise, in retrospect, the development performance of the Indian economy under its first two Five Year Plans, and to find out whether these plans succeeded in laying down sound foundations for future development. The development process, being an all embracing, complex phenomena, our study will be confined to an examination of the progress achieved in terms of the specific objectives of the plans.

A large number of economists have ascribed poverty and economic backwardness to the shortage of capital, outmoded techniques and institutions and rigid social attitudes. They also believe that the past and present of these so-called underdeveloped countries resembles the earlier stages of history of the present day developed countries, and that they are still in the original stage of history. Whether all of this is true or not can be verified from the study of a country suffering from poverty and economic stagnation. India provides an interesting case study of economic backwardness or underdevelopment which afflicts most of the countries of the Third World.

In the second place, we find that a larger part of the world has remained underdeveloped while only a small number of countries have managed to attain self-generating development. There are, broadly speaking, two main paths along which these countries have traversed, in the past; the free-enterprise system and the socialist system. England, and some other countries of Western Europe, as well as the countries of North America and Japan are important examples of the first type, while the U.S.S.R. and some other countries of Eastern Europe are those of the second type. Which of these can serve as the model, for the progress and development of the countries of the third world, is not easy to spell out. Every country has its own type of circumstances, institutions, social set up and attitudes, natural endowments, ideologies, etc. What is best for one country need not necessarily be so for others. Besides, every system has its merits and demerits. The Indian leadership, instead of blindly adopting one or the other path, decided to experiment with the better of both these worlds, and evolved a mixed enterprise system or the so-called 'socialist pattern of society.' Government action on the national scale, in an otherwise free market system, and the degree of success in achieving the desired ends, is of great interest to the economists in general, and to the leaders of the countries of the third world, in particular.

Thirdly, a country can learn much more from its own past experience than from anywhere else. India was the pioneer among the countries of the third world in preparing and publishing its comprehensive first Five Year Plan in the early fifties. It thereby provided definite evidence of an evolution of development policy and programme. There have been some significant achievements and serious shortfalls in the past in-so-far as her planned development is concerned. The shortfalls call for pin-pointing their causes, and avoiding their recurrence, through suitable policy measures. In short, the new experience gained in this manner may be of great help for future course of development and also for evolving a suitable theory and policy.

In chapter one, we shall study the state of the Indian economy at the time of Independence. This will be done in terms of the various growth indicators like national and per capita income, rates of savings and investment and the occupational structure of the economy. This will be followed by a brief description of the socio-economic conditions prevailing in the rural areas and the urban sector.

Chapter two will examine the beginnings made by the new Indian leadership towards planned economic development to cope with the problems of poverty and economic stagnation. The nature of Indian Socialism or "Socialist Pattern of Society" is reviewed briefly, along with the roles assigned to the public and the private sectors in terms of the industrial policy statements of 1948 and 1956. This is followed by a brief discussion of the nature and the process of Indian planning, with special reference to the public sector approach to planning and regulation of the private sector.

In Chapter three, the plans for development, i.e., the first and the second Five Year Plans are described in outline form. Covered in this are their objectives, broad priorities, strategy of development, financial resources and the policies concerning price level and foreign economic relations.

Chapter four reviews the Indian economic performance, during the first decade of planned development after Independence. This is done mainly in terms of the objectives of the plans. Also examined is the extent of the success of the price and foreign trade policies as to how far they succeeded in achieving the desired ends.

In Chapter five, the Indian development performance is evaluated in terms of the long term goal of the "socialist pattern of society." Success and failure of the various measures adopted in this connection is also underlined. The major performance lags, are analysed both with respect to the short period and the long period objectives in Chapter 6.

The last chapter gives a brief summary of the work along with some broad conclusions arrived.

CHAPTER 1

State of the Indian Economy on the Eve of Independence

After about 200 years of colonial rule,India became independent on August 15, 1947,and the new Indian government inherited from the former rulers a stagnant economy. Over the period of at least one century preceding independence,there was very little change in the social and economic structure of the country. This is evident from the behaviorial trends of various growth indicators, like national and per capita income, savings and investment, occupational distribution, and also from the prevailing class structure and distribution of income and wealth among the various classes. An objective analysis of the state of economy is necessary,in order to understand the causes of stagnation, and secondly to adop suitable measures in order to remove them as early as possible.

First, we may take the case of national and per capita income. Over a period of about five decades before independence, there was no doubt that there was some increase in absolute national income, but the per capita income increased very little. This can be seen from the table below:

India's Absolute and Per Capita

National Income 1900-01 to 1946-47

Years	National Income (Rs Million)	Per Capita Income Rupees	% Age Arising in Primary Sector	% Age Arising in Secondary Sector	% Age Arising in Tertiery Sector
1900/01-1904/05	15022	52.2	63.6	12.7	23.7
1910/11-1914/15	17300	57.0	60.1	13.9	26.0
1920/21-1924/25	18422	59.3	57.4	13.4	29.2
1930/31-1934/35	21306	61.6	51.4	15.8	32.8
1940/41-1944/45	24407	61.6	47.3	16.7	35.8
1942/43-1946/47	25243	62.2	46.0	16.9	37.1

Note: Primary Sector includes agriculture, animal husbandary, forestry, fishing, etc.

Source: S. Sivasubramonian, National income of India, 1900/01-1947/47, Ph.D. thesis submitted to Delhi University, 1965, pp. 340-352

The above table shows that though national income increased, there was only a minor change in the per capita income, i.e. from Rs 52.2 in 1900/01 to Rs 62.2 in 1946/47. The share of various sectors in the national income underwent some changes. For instance, the share of the primary sector declined from about 63 per cent to 46 per cent over this period. The share of the secondary and the tertiery sectors increased from about 13 to 17 per cent and 24 per cent to 37 per cent respectively. This increasing share, indicates the growth of industries and services and rising productivity in these sectors, relatively to that in the primary sector. Inspite of these changes, the level of living of an average Indian did not improve much, as reflected in the almost stable per capita income. This was so perhaps, because of the rapid growth of population during this period. For instance, the population grew by about 108 million between 1921 and 1951, i.e. from 248.1 million to 356.9 million, giving an average growth rate of about 1.47 per cent per year.[1)]

Next, as regards to occupational distribution of labour force, the share of manufacturing in total labour force declined instead of increasing. This can be seen from the following table:

Occupational Distribution of Labour Force (Percentage)

Category	1901	1911	1921	1931	1951
1. Agricultural Sector	71.7	74.9	76.0	74.8	72.1
Cultivators	56.6	49.8	54.4	45.1	50.0
Agricultural labourers	16.9	20.6	17.4	24.8	19.7
Workers in Forestry Livestock breeding and Fishing etc.	4.2	4.5	4.2	4.9	2.6
2. Industrial Sector	12.6	11.1	10.5	10.2	10.7
Mining and quarrying	0.1	0.2	0.3	0.3	0.6
Large and Small Industry	11.7	9.9	9.3	8.9	9.0
Construction	0.8	1.0	0.9	1.0	1.1
3. Services Sector	15.7	14.0	13.5	15.0	17.2
Trade and Commerce	6.1	5.5	5.7	5.6	5.2
Transport Storage and Communications	1.1	1.1	6.9	1.0	1.5
Other Services	8.5	7.4	6.9	8.4	10.5
TOTAL	100.0	100.0	1100.0	100.0	100.0

Source: India Pocketbook of Information, 1972, p. 25.

1) A. Coale and E. Hoover, Population Growth and Economic Development, Princeton, 1958, p. 30.

While the share of manufacturing decreased, that of services increased by about two per cent. The share of agriculture remained somewhat stable over the whole period of about 50 years. In the manufacturing sector, the major contribution was made by the manufacturing industries, both large and small scale. The share of small industries was much larger than that of the large scale ones, because the large industries employed only three million people as compared with 12.5 million engaged in the small scale industry of a labour force of 160 million.[1)]

Next, we may take the case of savings and investment. According to the first Five Year Plan estimates, net capital formation in India in 1950/51, was about five per cent of national income and it was almost wholly met through the domestic savings. Over the five decades before independence, net investment remained almost stagnant.[2)] We may conclude therefore, that the Indian economy was experiencing stagnation or a sort of economic decay, on the eve of her independence, as it is evident by the various indicators of change.

From this broad picture of the Indian economy we pass on to an examination of the socio-economic structure that emerged from the colonial rule. As about three-fourths of the population still lives in villages, and a major fraction of this derives its livelihood from agriculture, we begin our study with rural India. Further, we split this study in two parts, the first one being concerned with social and institutional aspects, while the second one is concerned with the economic repurcussions on agricultural productivity

1) A. Maddison, Class Structure and Economic Growth. Allen and Unwin, 1971, p. 62.
2) Government of India (GoI), First Five Plan, 1951, pp. 14-15.

The evolution of the systems of land tenure that existed until independence can be traced back to the British period. Broadly speaking, there were two main systems of land tenure, the 'Zamindari tenure' and the 'Ryotwari tenure'. The relations between land on the one side, and the interested parties on the other side, i.e. government, the owners and the cultivators, were determined on the basis of these tenures. Along with this, they governed the respective shares of each of these parties, as also the use of surpluses.

Under the Zamindari system, a class of non-cultivating owners, which had sufficient influence in the region, was created by the British, to collect revenues from the cultivating peasantry. The tenant cultivator paid revenue to the land owner and the landowner in turn paid revenue to the government. This system was first introduced in Bengal, and later extended to United Provinces, on a sort of permanent settlement basis. In these so called permanent settlement areas, the government could not increase land revenues, while the rents could be increased by the owners of land. The 'Jagirdari' system was an important variant of the Zamindari system, wherein the princely rulers of states, like Rajasthan, Hyderabad, etc. gave vast tracts of land to their courtiers and nobles, in return for their military or civil services. These jagirdars were not owners but administrators of land, and extracted high land revenues from the owners. In this case, there emerged a four tier system with the state granting jagirs (estates) and receiving royalty and services, the jagirdars conferring ownership and getting revenues, the owner leasing land and receiving rent, and the tenant paying rent while cultivating the land.

The Ryotwari system was introduced at a much later stage in states like Bombay, Hyderabad, etc. Under this system, the ownership rights were vested in the cultivators themselves and these owner cultivators, were required to pay revenue directly to the government. With the passage of time, this system also developed the characteristics of the three tier zamindari system. The owner cultivators were free to sell or lease or mortgage their land. With the growth of population, development of railways and seaports, etc., land became an important asset to hold as a source of rental income, and thus many buyers of land arose. Most often, these were the traditional money lenders, merchants and the land owners, who had no interest in cultivation, but were attracted by high rents. Moreover, exploitative revenue claims and increasing burdens of debt compelled the owner cultivators to sell their lands. At the time of independence, a large proportion of the total area under cultivation even in ryotwari tracts, passed under open tenancy and it is this fact which made this sytem somewhat akin to the Zamindari system.

In both these systems, the major mechanisms for increasing agricultural productivity were blunted. Improvements on land, which call for increased investment, could not be undertaken because of the adverse nature of tenurial arrangements. For example, the government remained passive. The absentee owners in whose hands the surplus accrued, preferred consumption to investment, and the tenant cultivators who did not have adequate surplus did not invest. Insecurity of tenure, fear of eviction, and high rents, became added reasons why cultivators became indifferent. These factors also explain the near absence of technological change in Indian agriculture during the pre-independence period. Most farmers still used age old techniques. In 1950, there were only a few hundred tractors for a whole multitude of about 65 million households. Application of fertilizers was no more than 250 grams of nitrogen per acre. This was perhaps the lowest in the world.[1)]

Separation of ownership from cultivation was not however a universal phenomena in the pre-1947 India. Instead,according to the National Sample Survey data,about 70 per cent of the cultivated land was worked by approximately 81 per cent of all rural households which did not lease any of their land. Average holdings for these owners were 5.15 acres. Compared with this, holdings of 16 per cent of the rural households which leased out part of their lands, i.e., 29 per cent of total area, were on the whole larger. Their average size is estimated to have been about 11 acres.[2)]

It follows from the above, that there were some other factors, besides the disabilities and disincentives arising out of land tenure systems, which inhibited Indian agriculture. Prominent among these, were perhaps the increasing pressure of population on land which resulted in an adverse land-man ratio. This led to a decline in the average size of land holdings and an alarming degree of fragmentation within the holdings. According to the Government of India (hereafter called GoI) Agricultural Labour Enquiry (1951), about 20 per cent of all agricultural families were of landless workers. Nearly 38 per cent of land owning families had land holdings of less than 5 acres each,and operated about 16 per cent of cultivated area. The remaining area covering about 83.3 per cent of all arable land was held by the rest of the agricultural families with an average landholding of 15.15

1) W. Malenbaum, <u>Modern India's Economy</u>, Columbus Ohio, 1971, p.38.
2) GoI, <u>National Sample SurveyEighth Round 10th Report</u>, July 1959-March 1955, pp. 14-34.

acres. About 200,000 of these families owned 250 acres or more and formed roughly one-fourth of all rural households.

As regards fragmentation within holdings, the "farm management studies" of the government of India reported that a farm of 2.5 acres in states like U.P. West Bengal, had on the average 3.5 fragments per holding. Holdings of between 20 and 25 acres, had fragments numbering upto 17 in the above two states. This implies that there was a good deal of wastage of manpower and bullock-power, as these could not be fully utilized on tiny sized holdings. This also had a negative effect on the long term improvements of land and its productivity. In short, increasing pressure of population on land, besides leading to an increase in land values and rental incomes, resulted in small and uneconomic landholdings. This tendency led to an increase in the incomes of the land owners but to a decline in that of the intermediary tenants and the landless workers because of their weak bargaining position.

A contributory factor, which added to the widening income inequality, was the emergence of a class of marketing and financial intermediaries. Small land owners and the cultivating tenants, took loans from the money lenders and traders in the form of consumption goods or fodder for animals. They often made advance commitments to sell their produce to the trader more or less on the barter lines. This explains the non-monetised, barter transactions in rural India, which isolated the cultivator from outside influences. The trader and the money lender was more often the same individual. Even where this was not so, the money lender had his share of exploitation. The cultivators, borrowed frequently from him, because of easy availability of loans, but the repayment of the principal along with high interest rates, became a long term burden to them. This resulted in accumulation of rural debt, which often travelled through generations. Repayment of loans in kind, was another disadvantage to the cultivator because of the lower prices committed in advance. Thus, the coming of marketing and financial intermediaries further added to the widening rural incomes inequality.

The Caste system and the religious attitudes of the rural people were also obstructing change, which added to economic and social inequality. For example, the Caste system in India did not permit any change in the status of various classes. An untouchable or "Harijan" had to remain so for the whole of his life. He did not have the privilege of going to the temples or schools for study or to join other social gatherings attended by the high caste people. This situation has persisted in rural India even till this day, and speaks of the hardened social attitudes. Though most of the unpleasant and difficult tasks are performed by the people of lower classes, their social status and economic conditions remain miserable. The whole situation can be summed up in the words of Maddison , "We still find a dominant caste of petty landlords, an intermediate group of tenants, village artisans tied by jajmani relationships, (family loyalties) a group of low status labourers, untouchable menials, with the whole held together by the same elaborate system of caste." [1)]

Having studied the Indian rural structure, we turn to an examination of its effects on land use and agricultural productivity. According

1. A. Maddison, op cit., p. 49.

to the estimates given by the first Five Year Plan, of the total land area of 615 million acres only 324 million acres or about 52 per cent, was available for cultivation. Out of this 35.5 million acres, was used for the production of more than one crops, both food and commercial crops. Taken separately, food crops covered about 78 per cent and commercial crops about 17 per cent of the cropped area. Plantation crops and spices covered a small percentage, i.e. 1.1 per cent of the area, and have been grown largely in North-East and South-West coast in India. About the rest of the area, not covered by the above crops, details are not available.[1] This data indicates the subsistence nature of the Indian agriculture, because food crops covered a substantial proportion of the cropped area. Commercial crops, including the plantations were not so important even until independence. With about three fourth the Indian population engaged in this primary sector, and producing mostly food crops, there are clear indications that average productivity in this sector was relatively low. Less production of commercial crops, as indicated by the area used for their production, explains the low internal and external demand for them, which has adverse implications for the growth of industries and foreign trade.

As far as production in agriculture is concerned, it depends on both the area under cultivation and the yields per acre. A study conducted by the government of India ministry of food and agriculture, on the trends in areas and yield, over a period of 40 years before independence, revealed that there were only minor, increases, during the period. There was of course an increase in the irrigated area by about 10 per cent during this period, mainly

1. Gol, First Five Year Plan, 1951, p. 154.

through extension of canals.[1] As regards yields per acre, the above study reveals that there has not been a uniform trend of rise or fall in the various states. There have been increases in yields for certain states, a decline in others, and an absence of any perceptible change in the rest. This situation can be summed up in the words of the first Five Year Plan: "on the basis of data available to us we would hesitate to arrive at any conclusion regarding yield trends."[2]

Yields per head of total population or per worker engaged in agriculture, is another aspect of the problem and we now turn to a consideration of its behaviour over a period of about half a century before independence. As noted earlier, population began to increase in India since 1921, and with this the pressure on agriculture started mounting. One important consequence of this, was a decline in cultivated land per capita as can be seen from the table below:

Cultivated Land Per Capita

(1901-1951)

Year	Acres	Year	Acres
1901	1.03	1931	1.04
1911	1.09	1941	0.94
1921	1.11	1951	0.84

Source: census of India 1951,
Vol. 1, Part I, p. 141.

There was a steady increase in per capita acreage upto 1921, but after that there has been a consistent fall due to rapid growth of popula-

1) V.G. Pause, "Trends in Area and Yields of Principal Crops in India," GoI Studies in Agricultural Economics, Vol. 1, New Delhi, 1951, p. 67.
2) GoI, First Five Year Plan, p. 157.

tion. How did it affect the per capita production? Available estimates of per capita agricultural production for the period under review, show that it declined steadily. The index of per capita production was 100 in 1893-96, but it declined to 98 during the decade 1916-1926,and further to 80 during the decade 1936-46[1], with the rising population and the demand and declining food production, we find the roots of the emerging food problem in India. This is further evidenced by the fact that India imported on an average three million tons of foodgrains in 1946-1951, which was about five per cent of India's consumption requirements for food.[2]

It is perhaps quite pertinent to ask whether low agricultural productivity was the result of only the adverse land tenure systems, or were there other and equally important factors responsible for it? Though there can be no simple and straight answer to this question, it can however be inferred from what we have discussed so far that there was complete lack of incentives for increasing efficiency in the use of land and improved technologies. The big landlords were both wealthy and influential in rural India,and could easily have effected the required changes themselves and made the small farmers and cultivators emulate their example. But they preferred consumption to investment in land for long term improvements,and so yields per acre on large farms owned by them remained comparatively low. Malenbaum views this situation in these words, "But the large share of land in relatively large agricultural holdings (above five acres) on the one hand, combined with the low yield limited progress history in the predominant agricultural

1) W. Malenbaum, <u>Prospects for Indian Development</u>, London, 1961, p. 125.
2) GoI, <u>First Five Year Plan</u>, p. 175.

product on the other, can only mean that on the average, the large and wealthy farmers were not efficient and productive farmers."[1] So it would not be incorrect to conclude that unfavourable institutions and attitudes, were mainly responsible for the low efficiency and low agricultural yields.

From the rural economy, we turn to an examination of the state of urban economy, to find out the level of progress attained in manufacturing and services.

India had quite a few cities during the pre-British period which were both big and populous. According to the first census of India, urban population in 1872 was about 8.7 per cent of the total population, and had increased to about nine per cent by 1901. In the Western countries, percentage of urban population in the beginning of the 19th century, was almost at the same level. For instance, in France it was 9.5 per cent, in Prussia it was 7.25, in Russia 3.7 per cent, in U.S.A, 3.8 per cent, and in England 21.3 per cent.

Among some of the old cities were also the sites of religious significance, like Beneras, Allahbad, Puri, or the seats of rulers and princes such as Lucknow, Hyderabad, Poona, Murshidabad in Bengal, etc. Some of these cities became famous for their artistic handicrafts, because of the demand for them by the pilgrims and wealthy princes, rulers, and the members of the royal families. But these older cities began to decline with the decline of certain traditional handicrafts, and the growth of some new urban centres at the turn of present century. The new towns like Bombay, Calcutta, etc. grew in importance because

1) W. Malenbaum, Modern India's Economy, 1971, p. 40.

of growth of the modern industry, foreign trade and the opening of railways which linked various parts of the country with the sea ports and the industrial centres. In short, the pace of urbanization increased from 9.42 per cent of population in 1911 to about 10.2 per cent in 1921, and to 11.7 per cent by 1941.[1] Some of the cities which grew in prominance between 1911 and 1947, were Bombay, Calcutta, Madras, Delhi, Ahmadabad, Nagpur, Scholapur, Lahore, Karachi (both in Pakistan now), and the steel town of Jamshedpur.

As regards the growth of the modern factory establishments, these began to be established only during the second half of 19th century. Before this period, India passed through a process of de-industrialization. In fact, before the advent of the British, India was both an agricultural and a manufacturing economy. Spinning and weaving were some of the important industries of that time. Connected with the weaving industry, were the dyeing industry, manufacture of gold and silver thread and cloth, etc. Besides these, other important industries of that time were brick-making and lime manufacture for buildings, carpentry, pottery, mats, bracelets, leather works, copper, tin and iron works, shipbuilding, sugar and salt manufacture, indigo manufacture and perfumery. Most of these goods were produced not only for home consumption but also for exports. According to Romesh Dutt, "The spinning wheel and the handloom were universally in use and it is scarcely an exaggeration to state that nearly half the adult female population in India eked out the incomes of their husbands and their fathers by the profits of their labour."[2]

1) J.N. Bhagwati and P. Desai, Planning for Industrialization, London, 1970, p. 55.
2) Quoted by V.V. Bhatt in Aspects of Economic Change and Policy, New Delhi, 1963, p. 12.

Indian manufacturing skills had also reached a high degree of maturity and proficiency. In the words of Weber, "The skill of the Indian in the production of delicate woven fabrics, in the mixing of colours, the working of metals and precious stones, the preparation of essences and in all matters of technical arts, has from early times enjoyed a world wide celebrity."[1] A similar degree of perfection was attained by Indians in the arts of iron manufacture and shipbuilding. About the art of iron manufacture, Wilson writes, "Casting iron is an art that is practiced in this manufacturing country (England) only within a few years. The Hindus have the art of smelting iron, of welding it, and of smelting steel and have had these arts from time immemorial."[2] Expressing similar views in 1901 , William Digby wrote, "A hundred years ago, ship building was in so excellent a condition in India that ships could be built which sailed to the Thames in company with British built ships and under the convoy of British frigates."[3]

The question that arises next, is what led to the process of de-industrialization, i.e. decline of the old handicraft industry, in India? Selfish commercial policy of the British government is believed to have been its chief cause. The main purpose of this policy was to make India subservient to the industries of Great Britain,and for the Indian people to produce only raw materials. R.C. Dutt describes thus, this process "It is unfortunately true that the East India company and the British Parliament following the selfish commercial policy of a hundred years ago, discouraged Indian manufactures in the early British rule, in order to encourage the rising manufactures of England."[4] Unfortunately,

1) Ibid, p. 14.
2) Ibid, p. 15
3) Ibid, p. 16
4) Quoted by A. Maddison, <u>op. cit.</u>, p. 54.

the process of decline and decay of the old handicraft industry went on till after the second world war and upto the time of independence. R.P. Dutt, sums it up in these words, "The real picture of modern India is a picture of what has been aptly called 'de-industrialization' that is the decline of the old handicraft industry without the compensating advance of modern industry. The advance of factory industry has not overtaken the decay of handicraft. The process of decay characteristic of 19th century has been carried forward in the twentieth century and in the post war period."[1) This means that with decay of the old handicraft industry, the people who were formerly engaged in the production of handicrafts and other such manufactures, were displaced from employment, and in the absence of adequate growth of the modern industry, had to fall back on agriculture for their existence and livelihood. This brings us to the question of the establishment and the growth of modern industry.

As seen above also the modern (factory) industry was started in India after 1850, when the first cotton textile and jute manufacturing mills were established. While the cotton textile mills were started by Indian capitalists, the first jute mill was established by Scots (Foreigners). Coal mining industry was also started during this period, mainly to meet the demands of Indian railways. First Indian steel mill was started by the Tata Iron & Steel Company in 1911. Though "Swadeshi" movement (i.e. boycott of foreign goods) increased the tempo of the development of indigenous enterprise in industry, trade and commerce banking and insurance at the beginning of the present century, its progress was not quite satisfactory. Instead, modern industry and

1) Ibid, p. 54.

and enterprise met with fortunes which fluctuated very widely during the period of 50 years preceeding independence. This was due to several factors which we shall discuss below. Presently we take up the behaviour of industrial production over the period of about half a century since 1900.

According to the available estimates, industrial output fluctuated widely during this period, without positive signs of an increase in its growth rate. This can be seen from the index of industrial production. For instance, with an index of 100 in 1935-36, the industrial output was between 20 and 30 during the first decade of the present century. At the time of second world war the index, though showed a four fold increase over that in the first decade, only managed to reach 100, implying that there was no growth during 1935-36-1939. Industrial production increased by about 20 per cent between 1939-1945, due mainly to the impetus given by the second world war. Then between 1945 and 1950, a further increase of about five per cent in industrial output was witnessed when the index stood at 125.[1)] These figures speak of a poor record of industrial progress over the period of half a century before independence. In other words,an average growth rate of about 1 to 1.25 per cent over the whole of this period,was no more than the overall growth rate of the Indian economy during the same period. At such a growth rate,modern industry could not provide employment to the swelling ranks of the unemployed, both because of increasing population and the decay of the handicraft industry. Factory employment which accounted for only three per cent of the total labour force in 1950, provides a clue to the magnitude of unemployment both open and disguised.[2)]

1) W. Malenbaum, Prospects for Indian Development, 1961, p. 153.
2) Ibid, p. 153.

The question arises why was industrial development so very limited over the period under review? A clue to this question is provided by the industrial structure and the composition of its output. The first census of manufacturing industries (CMI) conducted in 1946, revealed that some industries dominated the industrial structure of the country. Prominent among these were sugar, vegetable oils, cotton textiles, jute textiles, iron and steel smelting, rolling and re-rolling and engineering industries. Expressed in terms of both value added and value of production, the most important industries were cotton textiles and jute textiles. Their respective contributions in terms of value added, were 46 and 17.5 per cent. These industries dominated also in terms of employment. For example cotton textiles provided employment to 44.38 per cent and the jute textiles to 22.22 per cent of total industrial employment.[1)] The textile group of industries continued to dominate the industrial scene upto the time of independence. Production of iron and steel remained insignificant, even though some steel plants like Tata iron and steel company, Indian iron and steel company were in existence since the time of first world war. This industry employed less than one third of one per cent of all factory employment in 1900, and it remained almost the same till independence.[2)] With its low output, this industry failed to provide the necessary base for the all important machine building industry.

From this account of the structure of manufacturing industry, it may reasonably be concluded that there was little diversification of Indian industries, which is very important for industrial and economic transformation. In other words, industrial structure in 1951 was very

1) J. Bhagwati and P. Desai, op. cit., p. 43.
2) M. Malenbaum, op. cit., p. 154.

similar to the one that was reached by 1930 and no basic change took place in it thereafter. In the words of G.L. Bansal, one time secretary of the Federation of Indian Chambers of Commerce and Industry, "It would not be an exaggeration to say that basically the industrial structure in 1951 was very similar to the one that the country achieved by the late thirties.... Despite the much boasted war effect and marginal advances that had been made here and there, the country was only marking time throughout the forties as far as industries were concerned."[1)]

What can be a possible explanation for the relatively static nature of Indian industrial structure? Of the several factors that may have been responsible for it, mention may be made of the most important of these, such as management and control, industrial finance, and the industrial policy of the colonial government. We may study these in some detail.

British businessmen were the pioneers of modern industrial enterprise in India, in the early 19th century. They adopted managing agency as a device of entrepreneurship and leadership in business. The managing agents provided both leadership and finance to the enterprises engaged in production and trade. Indian businessmen joined their ranks only after 1850. At first, they became members of the British companies and later founded their own. As time passed, they grew in strength and importance,and at the time of independence more than 95 per cent of all modern enterprise became owned by Indians.[2)]

Indian entrepreneurship grew basically from three main communities, the Parsis, Gujaratis and Marwaris, the earliest of these being

1) Quoted by Malenbaum, <u>op. cit.</u>, 1961, p. 154.
2) Ibid, p. 156.

the Parsis. They began with textile manufacturing and thereafter moved into the light engineering industry. In the modern factory industry, Tatas were the pioneers, followed by Gujaratis, Marwaris and Jains in Bombay and Calcutta, and Chettiars in South India. Now the question arises as to why with such a potential indigenous industrial talent, Indian industry did not expand significantly and offer the spread effect to other sectors of the economy. One possible reason as we shall discuss below, was the shortage of finance for the Indian businessmen. But the other and more important factor, was the unfavourable conditions under which the Indian businessmen had to operate in the critical years of their growth. The alien government was least interested in the development of industry in India. Its policy of liberalism and free trade, resulted in severe competition between the home made products and those imported from England and other countries. This proved to be an obstacle to the expansion and diversification of industries. The British government in India, instead of purchasing the locally produced goods, like equipment for public utilities health and education, armed forces, building of railways, etc., purchased them from Great Britain. Similarly, a vast array of raw materials which were exported as such, could have been processed within the country to replace imports to meet the home demand. Purchases by government of various goods and materials from within the country could have given a boost to the indigenous industry. In the words of Malenbaum, "In any event, it is in this matter of the posture of government rather than in the nature of indigenous entrepreneurship, one must seek the reasons for India's limited industrial performance prior to 1950."[1] So the appropriate climate for the develop-

1) Ibid, p. 159.

ment of industries was absent, even though India possessed the potential business leadership.

The finance to support the growth of industries came mainly from three sources and these were, the wealth of the rich business communities, the managing agents and other institutions in the capital market, and lastly, the loans from the general public by sale of debentures. As regards the first type, the Indian industrial enterprise met its requirements mainly through its own resources or those of the family or community. They were able to do this out of the fortunes they had made in trade or money lending, and which now they could plough into their new industrial ventures. Indian banks which had come into existence at the turn of the present century, worked more or less on the British pattern of commercial banking, and so supplied only the working capital for short period against tangible assets like stocks of raw materials and finished products.

The Indian managing agents provided some long term finance somewhat on the pattern of British agency houses. They in turn, raised loans from various sources including both the civil and military officials who had high salaries, a considerable portion of which they could spare for longer duration. The officials became interested in such loans, because they could earn higher interest on their savings in this way, rather than by keeping them in ordinary deposits. But these managing agents wanted to play safe and so invested their funds in public utilities and in government bonds and securities, rather than in private loans and debentures.

Lastly a system of raising loans directly from the general public in the form of direct deposits got underway. The textile mills of Bombay, Ahmadabad, Sholapur, etc. invited direct investments from the members of general public by selling debentures on which they offered attractive interest rates.

Even though there were various sources of industrial finance in India, it was not available in sufficient quantities or amounts to meet the requirements of expanding industries. To what extent shortage of capital became an obstacle to the growth of industrial sector, is not easy to spell out,because of the non-availability of information in this regard. The limited scale of business activities which remained confined to the communities with vast fortunes and resources, as seen above,does indicate also that the absence of a well organised capital market and therefore the shortage of long term finance was a bottleneck for industrial expansion. In other words, a man with talent and investment ideas could do little to put them in use without adequate finance. In the words of Malenbaum, "It seems safe to conclude that capital markets would have contributed little to the extent and diversification of Indian business enterprise. The real limitations - those of the environment surrounding the indigenous entrepreneur - were operative before capital became a bottleneck."[1)]

Lack of diversification of Indian industrial structure and its more or less static nature is evident also from the employment proportion of labour force. At the time of independence, modern factory industry employed less than three million people,as compared with 12½

1) Ibid, p. 162.

million in small scale industry and handicrafts and a labour force of about 160 million.[1] The question arises whether the problems connected with the supply of labour, both skilled and unskilled, could also be a cause of limited industrial progress in India. There is no doubt that there were problems of large absenteeism, lack of industrial discipline and migratory character of industrial workers. But as time passed, labour discipline and commitment of labour to industry for livelihood improved. In the words of Morris, "The evidence from Bombay and Jamshedpur suggests that the creation of a disciplined labour force in a newly developing society is not particularly difficult."[2] This means that the supply of industrial workers did not create problems of formidable nature in so far as the expansion of modern industry in India is concerned.

In our study of the Indian economy, uptil now, we have made some indirect references to the negative role of the public policy and how it contributed to the prevailing economic stagnation before independence. Now we may examine this aspect in some detail. Most Indian historians attribute the lack of progress in India, to the passive role of the alien government. Not only this, they also believe that the state policies in certain cases proved rather inimical to the process of economic growth. Such state policies along with large scale outflow of resources from India to England, also known as "economic drain," during the colonial regime, are considered to be the most important factors responsible for economic stagnation. First we take up for further examination the government policies.

1) A. Maddison, <u>op. cit.</u>, p. 62.
2) Quoted by Bhagwati and Desai, <u>op. cit.</u>, p. 54.

All that the colonial government did was not bad, because it had some good aspects too. For instance, it brought about the political unity of Indian states and established quite efficient administrative, legal and judicial system in the country. It developed railways and communications networks in the whole country, and introduced modern education on Western lines as also Western liberal thought. Inspite of these and other such positive steps its economic policies remained inimical to the growth of both agriculture, industry and trade and commerce.

In so far as the case of agriculture is concerned, it is said that the government charged high land revenues and taxes on rental incomes, and did not persue a positive irrigation policy. Land taxes ranged between 50 to 60 per cent of economic rent. According to Romesh Dutt, "An income tax of 50 per cent on profits of cultivation is a heavier assessment than is known in any other country under a civilized government."[1] In fact, incidence of such taxes was much higher in some provinces like Bombay, Madras, etc. Stressing this fact, Dababhai Naoroji wrote in 1876, "England raises £70 million out of the national income of some £800 million that is about 8 per cent or about £2.10Sh per head from an income of £30 per head; whereas the Indian government raises £50 million out of national income of £340 million that is about 15 per cent or 6Sh per head out of an income of 40Sh per head."[2] The excessive burden of these taxes would not have had its harmful effects, if a part of these proceeds had been used for improvement of facilities in agriculture itself. But this was not done. For example, very little was done to improve irrigation facilities and agricultural education or to augment the supplies of manures, better seeds tools, etc. Con-

1) Quoted by V.V. Bhatt, op. cit., p. 38.
2) Ibid, p. 39.

sequently, the technology also remained stagnant. All these factors affected agricultural production rather adversely.

As glimpsed already in our discussion of the urban economy and the growth of modern industry, industrial and commercial policies of the government mostly aimed at making Indian market subservient to the British manufactures, by taking Indian raw materials, etc., as much as possible. This led to what we have seen already, a process of 'de-industrialisation' and the decay of Indian handicraft industry. Free trade policy persued upto the first world war added fuel to the fire,and hastened this process of decay of old industries. A protectionist policy was though adopted during the inter-war period, it was only a half hearted attempt and a belated step, in so far as the development of modern industry is concerned. This is so because it came too late and was further applied not with the required vigour and force, as it is evident from the lopsided and slow growth of industrial production, examined above.

The so called 'economic drain' consisted of various payments which India had to make to the United Kingdom during the colonial rule. These payments were in fact the savings on which the country got no return. Not only that, these were a net loss to India because these were never to be returned,and became a drain from the life blood of Indian economy. This drain was about 2.0 per cent of India's national income during 1757-1939.[1)]

The story of the drain is narrated like this. The East India company, during the second half of 18th century,collected various types of taxes

1) Ibid, p. 51.

from the people, and remitted them to U.K. both in kind and cash. Moreover, agents of the company had a virtual monopoly of internal trade and so made huge profits, which were sent to England in a similar fashion. As most of these remittances were in kind, India in a way was paying for her exports. Under the rule of East India company, official transfers reached £ 3.5 million in 1856, i.e., a year before the first was of Independence (mutiny).[1)]

Then during direct British rule, from 1858-1947, the official transfers of funds from India to U.K. went upto £ 50 million a year.[2)] These represented mainly, India office expenses in U.K., purchase of military equipment, railway equipment, debt service, pension, etc., and large part of these were considered as a balance of payment drain due to colonialism. Besides these, there were substantial amounts remitted by British officials in India which amounted to about £ 10 million a year during the closing decades of 19th century.[3)] In addition, there were remittances of dividends and interest payments by shipping and banking companies and plantations and other British investors. The total 'drain' due to all the above type of payments is estimated by Maddison to have been about 1.5 per cent of national income of India during inter-war period and somewhat higher before first world war. As far the effects of economic drain, J.S. Mill wrote in his "History of India", "It is an exhaustive drain upon resources of the country, the issue of which is replaced by no reflex; it is an extraction of the life blood from the veins of national industry, which no subsequent introduction of nourishment is furnished to restore."[4)] With a net

1) A. Maddison, op. cit., pp. 63.
2) Ibid, p. 64.
3) Ibid, p. 65.
4) Quoted by V.V. Bhatt, op. cit., p. 55.

investment of about 5 per cent of national income(as seen already), and a total drain of the order of about 1.5 per cent of national income on the eve of independence, there was a net loss of savings and foreign exchange equal to about one-fourth of net investment. This could otherwise be used to pay for imports of capital goods.

Conclusion:

During the colonial rule, India experienced a process of de-industrialization which transformed it from a net exporter of manufactured goods to a net importer of such goods.. Decay of the handicraft industry led to the displacement of people employed there in, who had no alternative but to fall back on service trades and agriculture, in the absence of a substantial advance of modern industry. Conditions in agriculture remained almost stagnant, because of defective land tenure systems and lack of incentives for long term improvements and government policy of heavy land taxation, etc. Rapidly rising population made things worse,because it increased the burden on land and made the conditions of the rural folk miserable, especially, those of the landless workers and the small cultivators. There was unequal distribution of wealth and income, which was a logical consequence of social class structure of the economy,in both the rural and urban sectors. An idea about poverty can be had from India's low per capita income of only Rs 62.2 at the time of independence,as well as from the distribution pattern of income in the rural and urban sectors as given in the table of the next page.

State of Personal Income Distribution 1953-54 (Percentage)

Fractile Groups	Rural	Urban
Top 5 per cent	17	26
Top 10 per cent	25	37
Top 50 per cent	69	70
Bottom 20 per cent	09	07

Source: Report of committee on distribution of national income and levels of living 1964, p. 14.

Government policies inimical to growth coupled with huge 'drain' of national wealth, were the chief causes of Indian poverty and stagnation.

CHAPTER 2

Beginning of Planned Development

Socialist Pattern of Society:

After independence,the new Indian leadership became faced with the task of economic progress. The Indian National Congress, which was mainly responsible for the independence movement and also India's independence, had a deep faith in the values of freedom and democracy,and so favoured a democratic political system, more or less on the British pattern. They also had a strong faith in the peaceful methods of enlisting public cooperation for bringing about the desired changes in the society. For instance, Mahatma Gandhi and other leaders, won freedom through non-violent methods. They enlisted enough public cooperation in the form of "Swadeshi movement" against imported goods. Similarly, they believed that some important economic and social changes can be brought about peacefully through active cooperation and participation of the masses. These values and ideas were, later enshrined in the new constitution of India which was adopted on January 26, 1950. Its preamble proclaimed India a Sovereign democratic Republic and ensured that all citizens shall enjoy:

> "Justice, social, economic and political; liberty of thought expression, belief faith and worship; equality of status and opportunity...."

> "The directive principles of state policy", in the Indian Constitution further stressed that, "The state shall strive

> to promote the welfare of the poeple, securing and protecting as effectively as it may, a social order in which justice, social economic and poltical shall inform all the institutions of material life."

All future changes in the socio-economic structure of India were to take place according to the spirit of the constitution.

To bring about such changes and to remove stagnation and poverty, some concerted action was necessary and this under the prevailing circumstances could come only from the public authorities. Inevitability of state action in economic growth of the third world countries, was generally recognised in late 40's and early 50's. There was of course difference of opinion with respect to the nature and extent of government action. India had two options before it at that time. First, there was the Gandhian solution to the problem of development which emphasised the simple life of spirit and of few wants, handicrafts and cottage industries, decentralisation of power and, village self- sufficiency. This path meant returning to India's so called glorious past, instead of blindly imitating the west. The second one, advocated by the left wing in the Indian National Congress party, particularly Subhash Bose and Jawaharlal Nehru, wanted rapid industrialisation and development of the economy on modern lines to eliminate economic stagnation and backwardness. After 1950-51, a mixture of these two views was adopted in the form of goals of long term development, which were to be achieved through phased plans of five year duration.

With the above background, India set before it the goal of 'Socialist pattern of Society', which was to be achieved through democractic or non-revolutionary methods. The ideology of socialist pattern of society is based on the total vision of the society. Its important implication for India has been that advance in material prosperity alone is not sufficient to make human life rich and meaningful, unless the benefits of this prosperity accrue more and more to the relatively less privileged classes of society, and there is a reduction of inequality of wealth and incomes. Though the objective of 'socialist pattern of society' was conceived during the First Five Year Plan, it was stated more specifically by the Second Plan, "Benefits of economic development must accrue more and more to the relatively less privileged classes of society, and there should be a progressive reduction of concentration of income, wealth and economic power. The problem is to create a milieu in which the small man who has so far had little opportunity of perceiving and participating in the immense possibilities of growth in the interest of a higher standard of life for himself and increased prosperity for the country. In the process he rises in economic and social status."[1] In short, socialist pattern meant rapid economic development along with continuous progress towards equality and social justice.

Development strategy:

Next question was how to attain rapid progress on the one side and promote social equality on the other. In so far as the question of growth with equality is concerned, a new strategy for industrialisation of the country was adopted in 1948 through the first Industrial Policy resolution and further substantiated in 1956 by the second such resolution. The 1956 resolution declared that,

1) GoI Second Five Year Plan, 1956, p. 22.

> "The adoption of socialist pattern of society as a national objective as well as the need for planned and rapid development require that all industries of basic and strategic importance or in the nature of public utility services, should be in the public sector. Other industries which are essential and require investment on a scale which only the state in the present circumstances could provide, have also to be in public sector. The state has therefore to assume direct responsibility for the future development of industries over a wider area."[1)]

According to these policy statements, industries were divided in three broad categories. In the first category (Schedule A), there were 17 major industries whose future development was made the exclusive responsibility of the state. Some important ones included in this category, were Arms and Ammunition, atomic energy, iron and steel, heavy machinery and similar other industries of basic and strategic importance. The statement did not contain any threat to existing units in the private sector, as to their nationalisation. The second category, consisted of 12 industries (Schedule B) which were to be progressively state owned, and in which the state would therefore generally take initiative in establishing new undertakings, but in which private enterprise would also be expected to supplement the efforts of the state. Some of the industries included in this category had been, fertilizers, machine tools, antibiotics, etc. The policy statement emphasised the need for cooperation between the public and private sectors as far as development of

1) GoI. Second Five Year Plan, 1956, p. 45.

this second category of industries was concerned. The third category consisted of all the rest of the industries, whose development was left to the private enterprise. It was clarified that though the state will have the option to start any industry in this category, whenever it deems it necessary, the general policy of the state will be that of encouraging the development of these industries in the private sector, through facilities like development of transport, power, finance and other such services. Besides, growth of private industries would be helped through fiscal and monetary policies as well.

Industrial Policy statements emphasised the development of industries not only through the efforts of the public authorities, but also through the initiative and enterprise of the private sector, and in this way, a mixed economy was envisaged for India. This strategy was nothing new, instead, it represented some kind of compromise between the elite groups in the congress party and the financial groups like Birla and Tata, who worked in collaboration with the National planning committee formed in 1938 under the chairmanship of Jawaharlal Nehru.[1] The capitalists favoured mixed economy, because they hoped to benefit by the expansion of social and economic infrastructure. It should not be surprising therefore, to find that the big capitalists benefited during the period of planned development and mostly at the cost of middle classes. But generally speaking, inspite of the criticism from certain quarters, this policy of mixed economy received support from the majority of Indian population.[2]

In reality this mixed economy in India, has meant the creation of a public sector including its financial intermediaries along with a large

1) Charles Bettelheim, <u>India Independent</u>, London, 1968, p. 145.
2) Ibid, p. 145.

private sector, both in industry and agriculture. The public sector, though small in size has its importance for two reasons. It has set up plants which could never have been financed by private capital for lack of funds,and also because of low returns on its long term investments. The public sector was able to do this job with the help of foreign loans mainly from the socialist countries. Secondly, the public sector has created a good deal of productive capacity in the sphere of heavy industry,and reduced the country's technical reliance on foreign countries. Development of steel works and of equipment for metalurgical, mining, heavy engineering and electrical industries is of great importance for further industrialisation.

As regards the private sector, the Industrial Policy statement of 1956 made it clear that, "Industrial undertakings in the private sector have necessarily to fit into the framework of the social and economic policy of the state and will be subject to control and regulation in terms of relevant legislation."[1] The Third Five Year Plan further clarified that,"all enterprise whether government or private has to meet the test of public interest in terms of the basic economic and social goals which the country has accepted."[2] A more lucid description of this policy has been given by Jawaharlal Nehru, "Broadly speaking the way we look at our own problems - whether it is poverty, our developing into a welfare state and toward a large measure of equal opportunity - it does not fit in with the growth of private enterprise in a big way. In a small way, yes, of course. In any event in India by far the greatest part of our life and our industry is bound to be governed by private enterprise. Take the whole of land, we are an

1) GoI Second Five Year Plan, 1956, p. 47.
2) GoI Third Five Year Plan draft outline, p. 2.

agricultural country. Take the whole of our small industry a very big sector in India. All these form a private sector - private industry. In regard to big industry we are anxious to avoid the development of monopolies in private hands because we think that they would come in the way of both equalisation and of general all-round progress. We are against concentration of power, political and economic. Therefore, we think in terms of what may be called basic industries, under state control. As far as possible we would much prefer if other industries would be organised on a cooperative basis private but cooperative.... This is our broad approach. It does not quite fit in with the American approach of giving free reign to private capital and private monopoly. Of course, it does not fit in with the Communist approach either. Yet it is the economic approach that governs our policy and this is so even politically."[1] In short, the government never wanted that there should be an unfettered growth of the private sector leading to exessive concentration of wealth and economic power.

To see that the reality conformed to the declared policy, the government introduced a large number of regulations out control measures, such as price fixing, wage controls, supervision of foreign trade and exchange control, rationing of some important but scarce products, legislation concerning the formation of new companies and on financial market issues etc. Though these measures looked good on paper, they had very little practical effect, because of the weak administration, prevalence of fraud, etc. In several cases, the powerful interests managed to get some of these decisions modified. Control of foreign exchange, at the beginning of the Second plan, is a typical example of bad management.

1) Quoted by G. Myrdal, Asian Drama, Allen Lane, 1968, pp. 816-817.

For instance, the currency reserves on which the public sector had priority demands, were actually used by the private sector for importing goods of minor importance to the national economy.

In short, in the field of large scale manufacturing industries the new strategy emphasised the development and subsequent expansion of public sector to achieve the twin objectives of growth and equality. Though most of these industrial undertakings failed to fulfill the objectives of efficiency and profitability, yet these were considered of secondary importance in the initial stages of their development. It was further believed, in their case, that as they became mature and surmount administrative problems, they would improve in efficiency, etc. Secondly, with regard to the private sector, the general attitude of the government and its subsidiaries was to help in its growth. Essentially there were some negative aspects of the state policy of controls and regulations which hampered growth. By and large, these policies helped in the growth of big business and economic concentration as we see in the following details.

What about the other sectors like small scale and cottage industries and the vast field of agriculture? The new development strategy, beginning with the Second Five Year Plan, emphasised the development of cottage and small scale industries in order to increase production of the consumer goods and to create adequate employment opportunities. Similarly, in the rural areas the government envisaged institutional reforms in the form of abolition of Zamindari tenures and protecting the rights of cultivators, introduction of national extension service, and community development projects for all-round development of rural areas. Besides, government also took measures to improve both production and marketing of agricultural products, by encouraging a network of rural cooperatives. Also to decrease the dependence on financial and marketing intermediaries, the government tried to establish cooperative credit societies. To provide technical assistance to farmers on the use of new technologies, development blocks were created under the national extension and community development schemes. In short the government tried in most of these ways to reform the rural society, in order to create better climate for increased production and its more equal distribution. Moreover, it tried to bring about social reforms like the abolition of caste system through legal and other measures. Similarly, it tried to popularise its various schemes through publicity measures, social gatherings, radio, etc., and also mass social support in the form of development of roads, reservoirs and other forms of rural uplift. How much success was achieved in the case of the twin objectives of growth and equity? It can generally be said that success was not as much as expected, but at least the foundations were laid for building a new rural society. There are several reasons for the lack of satisfactory progress and these we shall discuss in further detail as our study progresses.

Nature of Indian Planning:

Having discussed the broad nature of the Socialist Pattern of society, and the development strategy adopted by the government of India to move towards this goal, we turn to an understanding of the nature of Indian planning and the broad characteristics of the Indian Plans.

It must be recognised at the outset, that neither the politicians nor the civil servants and the technocrats who prepared India's first five year plan, had any experience in planning. They also did not have any set dogmas and rigid theories and models in mind at that time. As can now be seen, Indian Plans are empirical and are intended to provide answers to some urgent problems, (more or less). They state that is intended or expected. In this regard, they are essentially different from socialist plans which lay down imperative and compulsory conditions. The socialist plans, once adopted have to be implemented by administration and enterprises, whereas Indian plans attempt to define as precisely as possible the government policies for agriculture, industry etc. for the five year period. The implementing machinery may use its discretion in the fulfilment of the plans without violating any legal obligations.

The major cause of this situation is the mixed nature of the Indian economy in which the private sector is predominant and in whose case only a few restraints or prohibitive measures can be taken. The plans are more imperative in the public sector, but even here nothing is strictly compulsory, because the public sector is administered by civil servants or the government departments and ministeries who may often have to submit to the pressures from various outside quarters, i.e. vested interests.

So in India, there is no planning in the true sense of the word, because of lack of compulsory execution of the plans, after they have been prepared. Now let us have a look at the way the Indian plans are prepared.

In March 1950,a planning commission was set up with the Prime Minister as its chairman. In July 1951, the commission had prepared a draft outline of the plan which was to be in effect from April 1, 1951 to March 31, 1956. This was a generalised plan consisting of a fusion of different projects, most of which were already underway in July 1951. The central ministries, state governments and the representatives of the important industries discussed the various problems in various forums and in the press, the planning commission drew up the final version of the First Five Year Plan and submitted it to the government on December 7, 1951 for approval. It was ratified by the Parliament at the beginning of 1953.

At the state level, there usually are state planning committees and Boards for the drawing up and the execution of the plans. The state planning board, besides having the members of the state planning committee, has some non-officials members also. The state Planning Board is presided over by the chief minister of the state.

Further down the scale, there is a District planning committee headed by a District planning officer and presided over by the collector or the Deputy Commissioner, both civil servants. Finally, there is Project advisory committee with official and non-offical members, which advises the Project Executive officer. This structure was not created at a stretch, instead it took this shape slowly. The National development council (NDC) was established on August 6, 1952, and consists of the Prime Minister, chief ministers of states, and members of the planning Commission. The NDC has the real power in the formulation, and the periodical evaluation of the policies and programmes. In the words of Hanson, "The NDC is 'de-fecto', more than an advisory body but it is less than executive one. It may best be described rather lengthily, as the most important organised gathering where plans undergo adjustment in the light of the needs, pressures and prejudices and capacities of the states."[1)]

The Planning Commission's activities include the preparation of the plans and see that they are going as foreseen or should be revised. The commission is assisted by a corps of civil servants, government economists, specialised services of Technical Ministries and the two statistical organisations. The central statistical organisation (CSO) gathers and collates most of the statistics available from official sources, and the Indian statistical Institute (ISI) a semi-public organisation, which makes tests by means of National Sample Surveys (NSS) etc. The planning commission also gets statistical information from the Reserve Bank of India (RBI) as far as financial and agricultural data is concerned.

In India's federal set up, plans concerning the states are prepared by the states themselves rather than by the Planning Commission. The state plans are submitted both to the Planning Commission and to their respective state legislatures. The final plan of each state therefore, becomes a compromise between the state and the centre through mutual discussions. The central government and the Planning Commission assume the role of coordinators through various ways, i.e. allocation of resources both material and financial etc. So in the complete set up, the Planning Commission assumes the role of formulation of policy and the overall plans, the central ministries, various government depart-

1) A.H. Hanson, <u>The Process of Planning - A Study of India's Five Year Plans, 1950-54</u>, London, 1966, p. 62.

ments, the states etc. take up the tasks of the implementation of the plans, and of administration.

As economic policy has to be based on the aspirations and the accepted goals of economic expansion, it is interesting to know how the desired structural changes can be made in order to give a proper direction to the economy. The policy should be such as to mobilize both physical and financial resources, and direct them in the desired channels. It should also help in promoting the desired patterns of consumption. The main devices or instruments of such policy are firstly, public investment (public sector) and secondly, price mechanism, regulation and control of foreign exchange, licensing of industries, price controls, rationing etc. We may examine them at some length in turn. The second category we have discussed above, and so take up the case of the first one now.

In a mixed economy, heavy investments in building the infrastructure such as roads, schools, hospitals, etc. will be almost entirely in the public sector because they yield no direct return. Similarly, investments in power, transport, irrigation, etc. are also likely to be in the public sector mainly because of the fact that they are too slow yielding, technically difficult and heavily capitalised for private investor to undertake. Next, investments in industry and agriculture by the public and private sectors depend on several factors, most important of which are the ideology and the declared policy of the government. In the case of India the declared policy, as seen already , was the socialist pattern of society and the division of industries in various categories as per the industrial policy statements of 1948 and 1956. Without going into the merits of this policy we can only say that the basic purpose of this policy was to expand the public sector both as a tool of economic growth and a mechanism for social change. For instance, ownership of the basic industries like steel could be used by the government as a lever to manipulate the working of the economy. With the power to fix the prices of the important products like steel, power, etc., the government can affect the profitability of the private sector and thus change the structure of the economy. Similarly, through its large scale purchases, the public sector can direct the movement of the economy. According to R.C. Dutt, "our object is not to make steel or cars, but to use steel and car making as a tool for social change and economic progress." Further, the establishment of industries in the public sector has also spatial and temporal considerations. This means that the public rather than private investments would care for regional balances as also for the future generations. Similarily, only public enterprises would produce goods for economically weaker sections of society and make them available at the non-market prices and thus direct the resources in the desired channels. Production and sale of milk, drugs, textiles, paper etc., are some of the examples where the interests of vast majority of the people are better looked after through public production and distribution at the controlled prices.

The two important questions which are often raised in connection with the public sector undertakings are, the problem of their management and control, and secondly, of their commercial viability. Government control includes the accountability of the enterprise to the public through government and Parliament, especially in respect of its production, distribution, development accounts, management and industrial relations. The enterprises may be given autonomy in so far as their day to day working is concerned. The extent of autonomy and control in fact, depend on the organisational form of an enterprise. There are three main forms of organisation of public undertakings in India, and these are, deparmental undertakings like railways, posts and telegraph, the government companies established under the companies Act like the private companies, and thirdly, public corporations established by special laws. The departmental undertakings are least suited for commercial enterprises, because these can be least autonomous. The Planning Commission suggested the corporation form of organisation for most of the enterprises which are in the nature of public utilities and social services. The company form of organisation gives more autonomy and so is more suited to the commercial and trading concerns, which have to compete with the private enterprises. In short, the degree of control and autonomy given to the various enterprises has depended on the broad nature of the organisational grouping in which they are included.

Commercial viability or economic feasibility of the public undertakings is the second important question. According to Hazari and Oza[1)], the criteria of economic feasibility should include the following:

1. Pricing of the products on the basis of international prices with an initial mark up in the form of import duties;

1) R.K. Hazari and A.N. Oza, "Public Sector in India," in <u>Economic Development in South Asia</u>, London, 1970, p. 95.

2. Sufficient flexibility of product pattern to take advantage of market trends;

3. Optimum scheduling of investment and cash generation so as to minimise the total capitalisation (which would in many cases require starting on a relatively small scale and then expanding with the help of earlier cash generation); and

4. Use of a realistic interest rate for purposes of capital rationing.

Though these broadly are the criteria for economic feasibility of a public undertaking, a variety of non-commercial and non-profit objectives also have to be considered alongside. Major investments whether public or private, cannot possibly be separated from political considerations. In the words of Hazari and Oza, "once it is conceded that public enterprises have a variety of non-commercial, non-profit objectives, it is logically impossible to avoid any local pressures for employment or the responsibilities of being a good citizen in the area of location, quite apart from national level responsibilities."[1] It, therefore, follows that in a country like India we should not be surprised to find a mixture of the economic, ideological, social and political considerations, determining the establishment and development of public untakings. We may sum up the whole discussion as follows:

The realisation of the long term goal of "Socialist Pattern of Society", led the government to evolve a strategy of all-round development with an emphasis on the development of basic and heavy industries at a faster rate, starting with the Second Plan period. To step up the

1) Ibid, p. 97.

rate of investment,it was deemed necessary to expand the public sector. Expansion of this sector,and the establishment of key industries in this sector,was meant to give it the commanding heights and to direct the future course of the economy to achieve the broader social objectives of reducing inequality and avoid concentration of economic power. Along with this, development of small scale and handicraft industries and socio economic reforms in agriculture,were also envisaged as additional steps in the direction of the twin objectives of growth and greater social equality. Though public sector investments expanded during this period and helped to some extent in the growth process, the other socialist objectives lagged far behind as we shall see in the following chapters.

India, as we know, was a stagnant economy at the time of her independence, therefore, it was not so easy to build socialism in a short span of about ten years, more so when the intension of the government was not nationalisation of the private enterprises at least during this period. Heavy responsibility lay therefore,on the public sector to do the needful. So beginning with the First Five Year Plan, public investments expanded fastly, in industry, agriculture, infrastructure, etc. But the question is, whether the socialisation of means of production is a sufficient condition for establishing a socialist society. Public ownership of instruments of production, distribution and exchange, are without doubt of prime importance and therefore desirable to establish new property relations. Equally if not more, important is the change in the content of thought and behaviour of the people. The architects and engineers of economic development,have to be fully aware of the need for creating a new code of private and public conduct, especially in the initial stages of the emergence of a socialist society. Real socialism is therefore as much a matter of human relations as of institutional changes.

A great deal has been talked about labour participation in management, but no real beginning has been made in this direction. Public enterprises often lag behind the private enterprises in this respect. Along with this, we find that private interests have been building empires, and a close alliance between them and the bureaucracy at the higher level is being forged, which makes them a decisive factor in both policy making and administration. Similarily, institutional changes in the vast field of rural economy, have failed to protect the interests of the weaker sections and have instead helped more the powerful groups. So building a real socialist society remains largely a dream.

CHAPTER 3

The First Two Five Year Plans: Their Objectives, Policies and Programmes

Having described the broad social objective of the "Socialist Pattern of Society", and the mechanism or the strategy adopted by the government to achieve it we come to the specific plans for development, especially the first two Five Year Plans covering a period of ten years from April 1951 to March 1961. These plans as also the plans following these two, embody in them the specific programmes and policies of the government of India to bring about the socio-economic changes and achieve the desired objectives. We divide our study of these plans into four parts for the sake of simplicity and better understanding. These are, broad characteristics and objectives of the plans, targets and programmes of development for various sectors, financial dimensions of the plans, and lastly, the major sources of finance both internal and foreign.

Objectives

According to Griffen and Enos,

"There is a hierarchy of objectives from the general to the specific, from the abstract to the particular, from the unmeasurable to the measurable. In a plan we should find all these levels; the most abstract - the aspirations - which reflect the ultimate aims of the society; the intermediate - the

Goals--which are still abstract but which may be capable of being reached during the period over which the plan operates; and the least abstract - the targets - which are specific quantitative results that the plan is designed to achieve."[1]

Indian plans are no exception, and in fact represent a mixture of these various types of objectives. As regards the aspirations, we have discussed in the last chapter the goal of a "socialist pattern of society" as envisaged through the Industrial Policy statements. We, therefore, come to the second category of intermediate goals. The First Five Year Plan was concerned mainly with the readjustment and rehabilitation of the economy, and the solution of the current problems created by the Second World War and the partition of the country. Important among these problems were, supplies of food grains and raw materials and the creation of some social overheads or infra-structure. Food shortages were to be overcome to contain inflation. Similarly, the supplies of agricultural and other raw materials were needed to be increased in order to enable the existing industries to get going.

As regards development of industries, though the Industrial Policy Resolution of 1948, emphasized the establishment of new enterprises in the public sector, the Planning Commission did not want to go ahead with it during the First Plan period. So expansion of industrial output was left solely to the private enterprise and effort. The following were some of the major arrangements envisaged by the First Plan:

1) K. B. Griffen and J. L. Enos, <u>Planning Development</u>, London: 1970, P. 31.

1. Rehabilitation of the economy, devastated by the ill-effects of the Second World War and the Partition of the country.

2. Solution of the pressing problems of supplies of food and raw materials like cotton, jute, coal, etc.

3. Creation of the infra-structure like roads, railways, irrigation, hydro-electric works, etc.

4. Initiating measures of social reform and social justice consistent with the directive principles of the Indian Constitution.

5. Building up administrative and other organizations needed for carrying out programmes of development in the country.

The Second Five Year Plan, envisaged not only to carry forward the programmes started under the First Plan, but also to undertake the development of some heavy industries enlisted in Schedule 'A' of the Industrial Policy Resolution of 1956. The key role in this connection was assigned to the public sector which was supposed to undertake a major investment effort for rapid industrialization and self reliance. Specific objectives of the Second Plan were as follows:

1. A sizeable increase in national income so as to raise the standard of living in the country.

2. Rapid industrialization with particular emphasis on the development of basic and heavy industries.

3. A large expansion of employment opportunities and

4. A reduction of inequalities in income and wealth and more even distribution of economic power.

In the words of the Second Plan, these objectives were stated thus, "The principal task is to secure an increase in national income by about 25 per cent over the five years, to enlarge employment opportunities at a rate sufficient to absorb the increase in labour force consequent on an increase in population and to take major strides forward in the direction of industrialization so as to prepare the ground for more rapid advance in the plan periods to come."[1]

The Planning Commission wanted that all these objectives should be achieved in a balanced manner so that excessive attention to anyone of these, does not create problems for the attainment of the other objectives. That is why it remarked, "These objectives have to be pursued in a balanced way, for excessive emphasis on any one of them may damage the economy and delay the realization of the very objective which is being stressed. Low and static standards of living, underemployment and unemployment, and to a certain extent even the gap between the average incomes and the highest incomes are all manifestations of the basic under-development which characterizes an economy (India) depending mainly on agriculture. Rapid industrialization and diversification of the economy is thus the core of development."[2]

2. Programmes for Development:

National and Per Capita Income:

The National product was expected to increase from Rs 9,110 crores in 1950-51 to Rs 10,800 crores in 1955-56, and to about Rs 13,480 crores in 1960-61 at constant prices. This meant an increase of about 12 per cent during the First Plan period and 25 per cent over the Second Plan

1) Government of India, (GoI), Second Five Year Plan, 1956, p. 51.
2) Ibid, p. 25.

period. Likewise, the per capita income was expected to increase from Rs 253 in 1950-51 to Rs 281 in 1955-56 and to Rs 331 in 1960-61, i.e. an increase of about 11 per cent and 18 per cent over the First and the Second Plan periods respectively.[1)]

Level of Investment:

The envisaged changes in income and output were based on the programme for industrialisation which in turn was conceived in terms of level of investment and savings in the country. Net investment as a percentage of national income was about five per cent before the First Plan. The plans envisaged an increase in investment and domestic savings from about five per cent to seven per cent,and then to 10 per cent respectively over the periods of the two plans. The increase in savings was to be achieved through loans, mobilization of small savings with the help of national savings certificates,and various other incentive schemes, etc. Besides, savings were also meant to be increased through compulsory measures like provident fund, additional taxation, etc. The consumption expenditure was expected to increase by 16 and 21 per cent over the periods of the two plans. A complete picture of the intended increases in the above mentioned variables can be had from the table below.

(table on following page)

1) Ibid, p. 73.

National Income, Savings and Consumption

(Rs crores at 1952-53 Prices)

	1950-51	1955-56	1960-61
National Income	9,110	10,800	13,480
Net Investment	448	790	1,440
Net Domestic Savings	455	756	1,310
Consumption Expenditure	8,655	10,044	12,170
Investment as % Age N.I. (2 as % Age of 1)	4.94	7.31	10.68
Domestic Savings as % Age of N.I. (3 as % Age of 1)	4.98	7.00	9.7

Source: Second Five Year Plan, p. 79.

From the above table, it is clear that both savings and investment as percentage of national income were to grow overtime. The question now arises as to what were the respective shares of the public and private sectors in the total investments, and how these were planned to grow over the period of the plans. An idea about this can be had from the table given below:

Share of Public Sector Investment

in Total Investment (Per cent)

	Proposed		Actual	
	Public Sector	Private Sector	Public Sector	Private Sector
First Plan	N.A.	N.A.	46.4	53.6
Second Plan	61.3	38.7	54.0	46.0

Source: J. Bhagwati and P. Sesai, India, Planning for Industrialisation, 1970, p. 136.

The public sector investments were planned to grow at a faster rate than the private sector investments. At the end of the Second Plan, though the realised rate of investment in the public sector fell short of the target, its relative increase from about 46 per cent to 54 per cent over the Second Plan period indicates the growing importance of this sector.

Growth of Output:

We shall try now to see how the output in the various sectors of the Indian economy was envisaged to increase. A general idea can be had from the following table.

National Product by Industrial Origin

	Planned percentage increase during	
	1951-56	1956-61
Agriculture and Allied Persuits	18	18
Mining	19	58
Factory Establishments	43	64
Small Enterprises	14	30
Construction	22	34
Commerce,Transport,Communications	14	23
Services (Other)	20	23

Source: GoI, Second Five Year Plan, p. 73.

The greatest increase was expected to come about from mining and factory establishments over the periods of both the plans. The contributions of agriculture and allied activities were expected to be the same over the two plans but less than those of other sectors, especially manufacturing and mining. In other words, largest production was expected from secondary activities with the services coming next. Agriculture was not expected to grow as rapidly as the overall national product, at least during the Second Plan period.

How were these increases expected to be realised? This takes us to a study of the plan outlays and allocations which will enable us also to understand the broad strategy adopted for increased production and future development.

Public Sector Outlay (Rs crores)
(Actual)

	First Plan Expenditure	P.C.	Second Plan Expenditure	P.C.
Agriculture and Community Development	291	15	530	11
Major and Minor Irrigation	310	16	420	09
Power	260	13	445	10
Village and Small Industries	43	02	175	04
Industries and Minerals	74	04	900	20
Transport and Communities	523	27	1,300	28
Miscellaneous including Social Services	459	23	830	18
Total	1,960	100	4,600	100

Source: Third Five Year Plan, p. 33.

The above table gives an idea about the development priorities of the First and the Second Five Year Plans.

The First Plan aimed at an outlay of Rs 2,069 crores, but the actual expenditure incurred in the public sector amounted to Rs 1,960 crores. The Second Plan was comparatively a bigger plan as it proposed an outlay of Rs 4,800 crores in the public sector. The actual expenditure during the Second Plan was no more than Rs 4,600 crores. Next question is how much of these total outlays was of the nature of capital and recurrent expenses? The capital or the investment component of the plan outlays of the First and the Second Plans was Rs 1,850 and Rs 3,800 crores respectively. The balance represented current outlays.

For the private sector, the planned investments were of the order of Rs 1,650 crores and Rs 2,400 crores respectively for the First and the Second Plans. Compared with the public sector outlay, investments in the private sector, as noted above also, were to grow at a slower rate. Another noteable element in the public sector outlays is a higher priority for the development of industries, especially heavy industries, and minerals. Here the underlying idea was to achieve self sustained growth within a relatively short period of time beginning with the Second Plan. Next, we may take up the detailed programmes and targets set under the two plans for the various sectors.

Agriculture:

Highest priority was accorded to agriculture and community development in the First Plan. Both multi-purpose projects and large and small irrigation works, had been started even before the commencement of planning in India. These were included in the First and Second Plans for their further expansion and development. Community development through centrally aided national extension services was basically meant to establish contact with the people and farming families in the countryside, and arouse consciousness among them about planning and the programmes of development, and to enlist their full cooperation, help, and support.

The programme for increasing agricultural production covered foodgrains, cotton, jute, sugar-cane and oil seeds. Production of foodgrains was set to increase by 14 per cent in 1955-56 over that of 1949-50. Cotton and jute production was expected to increase by 42 and 63 per cent respectively above the level of 1950-51. The production of sugar-cane and oil seeds was to go up by 13 per cent and eight per cent respectively during the same period. The detailed programme for achieving the targets for foodgrains and other crops were worked out in consultation with the state governments. As noted in the table above, a sum of Rs 601 crores or 31 per cent of total outlay of the First Plan was allocated to agriculture, community development and the major and minor irrigation works. This means that most of the increase in agricultural production was to be achieved through increased irrigation facilities and the programmes like community development and national extension. The plan also made detailed references to the programmes of land reforms of which we shall discuss more in the objective of equality in this Chapter. The commission also mentioned other reforms like providing agricultural finance through a network of rural cooperative credit societies, improved marketing organisation, reform of agricultural machinery and techniques, etc.

The Second Plan envisaged carrying forward the programmes of development in agriculture and allocated a bigger sum of Rs 950 crores or 20 per cent of the total outlay for the purpose. Comparatively lower priority for agriculture during the Second Plan was due mainly to the fact that agricultural production during the First Plan period increased by 11 million tons or 20 per cent against the target of 14 per cent. The planning commission felt encouraged by this progress (though this proved to be a temporary phase), and accorded a lower priority to agriculture during the Second Plan. The commission hoped for a continuous and consistent increase in agricultural production over the Second Plan period also, and so decided to keep the development of industries high up on the list of priorities.

The target for additional production of foodgrains was set at 10 million tons, i.e. an increase of 15 per cent from 65 million tons in 1955-56 to 75 million tons in 1960-61. Production of cotton, sugarcane, oil seeds and jute was expected to increase by greater percentages, i.e. by 31, 22, 27 and 25 per cent respectively. These increases were envisaged to come about from additional area under irrigation and increased consumption of fertilizers, etc. The target for additional areas under cultivation was set at 21 millions acres and the use of nitrogenous fertilizers was expected to increase from 6.1 Lakh tons to 18 Lakh tons in 1960. Increase in production was also expected to result from better quality seeds and land reclamation and improvement programmes covering the area of about 3½ million acres of land.[1)]

Power production was also accorded a high priority in both the First and the Second Plans. Its total production or generation from the two main sources, i.e. hydro-electric and thermal power projects was expected to be almost equal. At the beginning of the First Five

1) GoI, Second Five Year Plan, p. 63.

Year Plan, the total installed capacity for the generation of electricity was 2.3 million k.w. The First Plan envisaged an increase in power capacity of some seven million k.w. in 15 years. The installed capacity over the First Plan period increased by 1.1 million k.w and a further increase of 3.5 k.w. over the Second Plan period was planned. To achieve these targets, the First and the Second Plans allocated about 13 per cent and 10 per cent of total outlay respectively.[1)]

Industries and Minerals:

Industries and minerals were accorded a higher priority in the Second than in the First Plan. This is evident from an increase in outlay for this sector from only four per cent in the First Plan to 20 per cent in the Second Plan. This was done with the aim of iniciating a process of decisive transformation, so that economic growth could be made more or less automatic in the future. In 1949-50, the Fiscal Commission had pointed out that development of industries in India was lopsided,because the basic and heavy industries did not keep pace with growth of consumer goods industries. The commission had therefore recommended a speedy development of these basic and heavy industries. As seen already, during the period of the First Plan, the government was interested in adapting the economy to the needs of the moment, rather than in laying the foundations of future development. For this very reason outlays and investments in industry remained low in relation to the total outlays and investments.

As regards the relative importance given to the industries producing consumer goods and those producing means of production, i.e. producer goods like, steel and engineering industries, petroleum re-

1) Ibid, p. 66.

fineries, cement industry, etc., the latter accounted for about 75 per cent of the total investment in this sector. This can be seen from the table below:

Public and Private Industrial Investment during the First Plan (Million Rupees)

	Target	Actual
Matallurgical Industries	850	610
Petroleum Refineries	640	450
Chemical & Pharmacentical Industries	260	270
Engineering Industries	530	460
Cotton	90	200
Sugar	01	50
Cement	177	175
Paper and Cardboard	74	120
Other	323	189
Total	2,945	2,524

Source: India, 1960, p. 301.

The above table clearly shows that the processing industries producing consumer goods did not expand rapidly during the First Plan period.

The Second Plan gave a priority to the basic industries. This is evident from the fact that out of a total investment in the large scale or big industries of Rs 10,940 million for the period 1956-61, Rs 9,150 million or 86 per cent were to be made in the basic industries. This can be analysed from the table given below:

Public and Private Industrial Investment during the Second Plan

	Target		Actual	
	Rs Millions	Per Cent	Rs Millions	Per Cent
Metallurgical Industry	5,025	45.9	7,700	52.0
Engineering Industry	1,500	13.7	1,750	11.9
Chemical Industries	1,320	12.0	1,400	9.5
Cement, etc.	930	8.5	600	4.1
Petroleum Refineries	100	5.0	400	2.7
Paper and Cardboard	540	5.0	400	2.7
Sugar	510	4.7	560	3.8
Natural Textiles	363	3.3	500	3.4
Artificial Textiles	240	2.2	340	2.3
Others	415	3.8	1,150	7.8

Source: Third Five Year Plan, p. 456.

The tilt in favour of the basic and heavy industries was the logical consequence of the industrial strategy that had been adopted by the government.

The major programmes in the public sector concentrated on the production of steel, coal, manganese non-ferrous metals, heavy machine building, heavy chemicals and drugs, petroleum refining, etc.

During the Second Plan, three steel plants with one million tons capacity each, were planned to be established in the public sector at Rourkela, Bhillai and Durgapur. Steel production at Mysore iron and steel works was to be expanded to 100,000 tons. The combined output for finished steel from all public sector plants was expected to be of the order of two millions tons. Similar increases in steel production were also expected from the private sector plants. Some other programmes of the private sector industries included expansion of cement industry, aluminium industry, ferro manganese and refractories etc. Besides, production of machinery, including that for cotton textiles, jute, sugar, paper, cement, agriculture, road making, was also to be substantially increased by the private sector industries.

Of the total investments, quite a large proportion went into the field of industrial development in both the public and private sectors. Another, and equally significant fact in this regard, is that a greater share of these came from the private sector. This can be seen from the table below:

Public Sector Investments in Industries

	First Plan	Second Plan
Total Investments in Organised Industry (in Rs crores)	398	1,620
Percentage Share of Public Sector	15	47

Source: India Pocket Book of Economic Information, 1972, p. 274.

The table above shows that though the share of the public sector in industrial investment was increasing fast over time, it was still less than that of the private sector.

The village and small industries received a greater share during the Second Plan than in the First Plan, i.e. two and four per cent respectively of the total outlay. This was done for two reasons, to increase the supply of consumer goods and secondly, to expand employment opportunities. As the production of consumer goods was left largely to the private sector and the government could only indirectly encourage their production, it became necessary to develop the village and small industries under the care and guidance of the state and central government departments and ministries. Prominent among these industries were handloom industry, hand trades like production of oil, sugar (Khandsari & Gur), rice husking, tanning, etc. as well as the small scale urban industries like, sewing machines, buttons, cycle parts, etc. The methods employed to encourage small scale industry were like internal protection by forbidding the expansion of rival modern industries, subsidies, financial aid, tax rebates, arrangement for their sale through the state emporia, etc.

Services Sector:

Next we consider the case of the policy towards the expansion of tertiary sector. Development of transport and communications was given equal weight in both the plans, i.e. 27 and 28 per cent respectively of the total outlay. During the First Plan, a little more than half the outlay for the sector was meant for railways and the other half went to other means of transport and communications. The programme for railways included replacements which had accumulated since the second World War and installation of additional capacity to cope with increasing load. The Second Plan provided for the doubling of 1,607 miles of track and conversion of 265 miles of metre guage into broad guage lines. It also provided for steady electrification and the"deiselisation" and construction of 842 miles of new lines and renewal of 8,000 miles of old tracks.

For the development of roads in the centre and the states, an amount of Rs 100 crores was earmarked during the First Plan. Of this, nearly 50 per cent was for national highways and the rest for state roads and road transport. Rs 96 crores were provided for shipping, ports and harbours,and inland water transport as against Rs 32 crores in the First Plan. For civil aviation, the First Plan allocated Rs 9.5 crores. Its programme included the integration of existing airlines and setting up of state corporations, such as the Indian Airlines Corporation and Air India International. The Second Plan made a further allocation of Rs 43 crores for civil air transport, i.e. for the purchase of additional aircraft and improving their operational facilities.

Similar improvements were envisaged for posts and telegraphs, telephone industries and broadcasting services. The basic aim in the case of all these industries was to increase efficiency and to expand facilities to cover a larger proportion of the Indian people.

Expansion of Employment Opportunities:

The third objective of the Second Plan was to expand employment opportunities.

In 1950-51 the Agricultural Labour Inquiry Report[1] submitted to the Ministry of Labour revealed that male agricultural labourers could find employment for an average of only 218 days a year. The female agricultural labourers worked for only 134 days a year, and were therefore out of work for more than half the year. The National Sample Survey's fifth and sixth reports[2], found that about 27 per cent of the economically active rural working force was employed for less than 10 days a month. The corresponding proportion for urban labour force is about 9.65 days. The seventh report of the National Sample Survey indicated that nearly 30 per cent of the economically active labour force, i.e. about 47.72 million people, were not working full time in 1952-53, and about 20 million were working quarter time or less.

The First Plan did not give any definite picture of the problem of unemployment and underemployment. According to the estimates of the Second Plan, the volume of unemployment stood at 5.3 million in 1955-56, and an addition to it of 10 million people was expected during the Second Plan period. A major part of this increase was to be in the rural sector. Therefore, a target of 10 million new jobs was set, leaving the backlog of unemployed of 5.3 million untouched. Of the target of 10 million new jobs, eight million were expected to result from the total outlay of Rs 7,200 crores in both the public and the private sectors. An additional two million jobs were expected to result from the programmes of rural development and agricultural extension.

1) Government of India, Ministry of Labour, Agricultural Labour Inquiry, Report on Intensive Survey of Agricultural Labour, 1950-51, p. 28.
2) GoI, National Sample Survey - Round 14, pp. 73 and 81.

As for the proposals for employment creation, the Planning Commission felt that it would largely be confined to the consumer goods industries, especially the small scale indsutries and handicrafts, and to the programmes like land reforms, community development projects, National Extension Service, etc. Overall expansion was also expected to help in the generation of more employment opportunities. Besides, overall development was also expected to help in the reduction of regional disparities and economic inequality. The commission hoped that public investment in transport and power and other forms of infrastructure, would stimulate private investment in medium and small enterprises and so would help in attaining greater equality in income distribution. The following table gives the details as to how the Five Year Plans envisaged an increase in overall employment. (See following page)

Equality in Income and Wealth Distribution:

This is the fourth objective of the second Five Year Plan.

An average Indian is among the poorest in the world. The problem of poverty has two important aspects, absolute and relative. The absolute level of poverty depends on per capita income and per capita consumption. Distribution of income among the various sections of people determine the extent of relative well-being or otherwise of the people. For the year 1950-51, the National Income Committee estimated India's per capita income at about Rs 265, but this in itself does not give any indication of poverty both absolute or relative. Therefore, we have to use some other index of measuring it. Consump-

(continued on page 71)

Additional Employment under the

Various Plans (in Lakhs)

Sector	First Plan	Second Plan
Non-Agricultural		
Construction	5.5	21.0
Irrigation and Power	1.5	0.51
Railways		2.53
Other Transport & Communications	24.04	1.80
Industries & Minerals	24.04	7.50
Cottage & Small Industries	24.04	4.50
Forestry and Fisheries		4.13
Education		3.10
Health		1.16
Other Social Services		1.42
Permanent Services		4.34
'Others' Including Trade and Commerce		27.04
Total:	31.04	79.03
Agricultural:	21.5	20.00
Grand Total:	52.54	99.03

Source: First Five Year Plan, pp. 653-57 and Second Five Year Plan, p. 115.

The above table shows that about 5.2 million jobs were to be created during the First Plan. Out of these, about 2.1 million or 40.5 per cent of these were to be in the agricultural sector and 3.1 or 59.5 per cent were to be in the non-agricultural sector. During the Second Plan, about 10 million jobs were to be created in all out of which, eight million or 80 per cent were to be in the non-agricultural sector while two million or 20 per cent were to be in the agricultural sector.

tion expenditures on basic requirements of necessities like food, clothing, shelter, etc. do give some indication about the extent of poverty. Economists like V.M. Dandekar, N. Rath have related poverty with the per capita consumption of food. According to them, an average of 2,250 calories per head per day is the minimum requirement of food in the urban areas, while in the rural areas it may be slightly more. On this basis, a line may be drawn between those who can afford to buy themselves this minimum or more, and those who cannot do so. Estimates of absolute poverty were made by Dandekar and Rath[1)] for the first time in 1960-61, i.e. at the end of the Second Plan; these estimates indicated that nearly 41 per cent of the people in India lived below the poverty line. Since no perceptible change took place over the previous decade, as we shall see in the next Chapter, we may assume that poverty was at almost the same level or slightly less in 1950-51 because of a smaller population.

We have also had a glimpse of the relative poverty, i.e. income distribution among the various fractile g oup in both rural and urban areas in 1953-54. We also became aware of the magnitudes of unemployment and underemployment in both rural and urban areas in the previous section of this chapter. All this evidence clearly points to the miserable conditions of the Indian poor. Now the question arises, what steps did the First and Second Five Year Plans envisage to alleviate poverty and bring about a more equal distribution of wealth and income?

As for the question of removal of absolute poverty and unemployment is concerned, the Planning Commission believed that it was a

1) V.M. Dandekar and N.K. Rath, "Poverty in India" in Economic and Political Weekly, January 2, 1971.

long term problem and so could be tackled through overall development of the economy and the expansion of output only. But in so far as the question of income and wealth distribution is concerned, the commission recommended the following important measures:

1. Fiscal measures.
2. Control measures to check concentration of the economic power.
3. Land Reforms.
4. Expansion of social services.
5. Balanced regional development.

1. We may briefly discuss these meaures one by one. As regards the fiscal measures, the inequality in income distribution was meant to be reduced through progressive taxation on high incomes both earned and unearned. Graduated inheritance tax, higher taxation of luxuries and imported consumer goods were some other important characteristics of the new taxation measures stipulated.

2. The control measures, besides the expansion of the public sector, included industrial licencing and control under the industries (Development and Regulation) Act 1951 and close control over the use of foreign exchange, etc. All these measures were meant to avoid over-concentration and interlocking of private enterprises.

3. Land Reforms policy was meant to remove inequality in the rural areas by abolishing the intermediaries and giving the land to the tillers or cultivators. There were three main aspects of this policy and these were (a) abolition of intermediaries,

(b) fixation of rents along with security of tenure, (c) re-organisation of agrarian structure. We may understand now what these measures implied.

(a) Abolition of Intermediaries:

Each state was required to enact legislation (land being a state responsibility for the abolition of Zamindari system and its evil effects. The basic idea of this legislation was to remove absentee landlords who collected revenues and rents from the cultivators and paid a part of the same to the government. Now the government wished to make the cultivators the owners of land, so that they had an incentive to effect long term improvements and increase production. This was to be done of course after a reasonable payment of compensation to the previous owners or landlords. There was another, and perhaps equally important purpose of the abolition of the absentee landlords, and that was to reduce inequality of wealth and income by giving the land ownership to the cultivators.

(b) Tenancy Reforms:

In certain cases, the government allowed the land to be owned by the absenttee landlords such as widows, crippled people, people working in the armed forces, etc. but protected the rights of the tenants, who were required to cultivate the land. This was done in respect of the conditions of tenure, the payment of rents by the tenants and the possibility of making the tenants as owners. As far as rents are concerned, they ranged between 50 to 60 per cent of the total produce of land before 1951. The First Plan laid the broad guidelines for the fixation of rents which were not to exceed 25 per cent of total output. Where a tenant failed to pay rent, he could be ejected by the owner only through a legal process and not otherwise. Again, landowners could resume cultivation as in the case of armed forces personnel or the sons of a widow becoming of age, etc., but they could not take away the whole of the land from him, instead were supposed to leave a certain minimum for him to make a living. In such cases the tenants could also be made the ultimate owners.

(c) Reorganisation of Agrarian Structure:

We have seen from the above that a large number of agricultural holdings were small in size, fragmented and scattered at different places. This called for the governmental action to consolidate land, and also to redistribute it in such a way that the landholdings were at least of an economic size, i.e. were not below a certain size depending on the location and the climatic conditions. Both the First and the Second Plans emphasised these aspects under the schemes of rural reorganisation. Following the Gandhian principles of rural uplift, the Plans did refer to the schemes of "Bhoodan" and "Gramdan", i.e. the gifting of land and villages by big landlords, etc., but did not clarify the mechanism for achieving these. In fact, these were left to the social reformers like Vinobha Bhave and others to carry forward, but without much success.

4. Expansion of Social Services:

The Plans emphasised the expansion of social services with a view to ameliorating the conditions of the poor. They laid particular stress on expansion of education, public health and family planning services. Besides, the Plans also emphasised the schemes for the eradication of malaria, small pox, cholera, and the provision of wholesome drinking water. For all these purposes, the First and the Second allocated 23 and 18 per cent respectively of their total outlays. These will be discussed in further detail in the following chapters.

5. Balanced Regional Development:

The Planning Commission from the very outset regarded the development of the regions and of the national economy as parts of a single process. "The progress of the national economy will be reflected in the rate of growth realised by different regions and in turn greater development of resources in the regions must contribute towards accelerating the rate of progress for the country as a whole."[1] But the commission also cautioned that excessive emphasis on the problems of particular regions and attempts to plan for their development, without relating their needs to the requirements of the overall national economy, should be guarded against. This is so, because the different regions can realise their full potential for growth only as organic parts of the country. In this fashion, the national and regional developments are closely interlinked and so must be viewed in an integrated manner.

1) Government of India, Third Five Year Plan, p. 153.

The objectives of socialist planning implied that all states and regions within the country should be able to attain levels of living not far removed from those of the country as a whole. Outlays for the First and the Second Plans for each state were therefore arrived at after a careful study of its needs and problems, past progress and lags in development, likely contributions to the achievement of major national targets, potential for growth, and the contribution in resources which the state is able to make towards its development plan.

After the States Reorganisation Act was passed in 1956, the country was divided into five main regions, North, Central, Eastern, Western and Southern. Per capita state outlays, state resources and central assistance under the First and the Second Plan in the various regions, can be seen in the table given below:

Per Capita State Outlays, State
Resources and Central Assistance (Rs)

	Northern	Central	Eastern	Western	Southern
State Outlays					
First Plan	67	29	42	47	36
Second Plan	69	38	46	68	57
State Resources					
First Plan	09	12	12	30	17
Second Plan	27	16	21	45	28
Central Assistance					
First Plan	58	17	30	17	18
Second Plan	42	22	25	25	29

Source: Government of India Planning Commission, Economic Development in Different Regions in India, pp. 55-56.

The table above gives a broad picture of the relative economic position of the various regions and the extent of regional disparities. We are unable to compare the interstate position within a particular region and between regions for the lack of the necessary data for the period before the plans.

Having discussed the objectives and the programmes and targets envisaged by the First and the Second Five Year Plans, to achieve the objectives, we pass on to the discussion of the financial dimensions of the plans and the sources underlined for meeting these dimensions.

Financial Resources:

We have had an account above of the financial outlay in the Public Sector during the First and Second Five Year Plans. We may examine now as to how it was proposed to be met through various sources. As far as the First Plan is concerned, it did not present any serious problems because the sums envisaged were moderate and could be raised without much difficulty. Against the total expenditure of Rs 2,069 crores in the Public Sector, which was subsequently raised to Rs 2,378 crores, the actual outlay was of the order of Rs 1,960 crores. The following table gives the details of the pattern of financing as envisaged and actually realised.

(Table on following page)

First Plan Resources (Rs crores)

Heads	Expected	Per Cent	Actual	Per Cent
Surplus from current revenues including additional taxation	570	27	637	33
Public Loans (net)	115	06	204	10
Small Savings (net)	225	11	243	13
Railways contribution	170	08	115	06
Other forms of debt	178	09	239	12
External Assistance	521	25	189	09
Deficit Financing	290	14	333	17
Total:	2,069	100	1,960	100

Source: India Pocket Book of Economic Information, 1972, p. 279.

The actual resources available during the First Plan were largely from domestic sources as about 91 per cent of these came internally. Secondly, the share of budgetary resources was the largest, i.e. about one third of the total. Thirdly, a recourse was made to deficit financing to cover the gap between the resources available and required for planned outlays. Fourthly, external assistance was availed to the tune of Rs 189 crores out of an expected sum of Rs 521 crores, i.e. nine per cent of the total resources. There were several reasons for this underutilization of aid during the period of the First Plan, but the most prominent among these,were the limited scope for its utilization, delays in negotiations and actual receipts of aid, tying of aid to resources and projects, etc. Most of the aid was given by the U.S.A. and

I.B.R.D. About 70 per cent came from U.S.A., 15 per cent from I.B.R.D. and the rest from agreements under the Columbo Plan.

The Second Plan was more ambitious, bigger, bolder and envisaged a total outlay of Rs 4,800 crores which was more than double the amount spent during the First Plan. It, therefore, called for more drastic steps to raise revenues and finances in the form of new taxation, greater mobilization of savings, public borrowings and deficit financing. It also called for greater efforts to secure assistance from abroad. The following table gives the broad pattern of financing of the Second Plan outlays:

Resources for Second Plan (Rs crores)

Heads	Expected	Per Cent	Actual	Per Cent
Surplus from current revenues at existing rates of taxation	350	7.3	11	0.2
Additional Taxation	450	9.4	1,052	22.5
Public Loans (Net)	700	14.6	772	16.5
Small Savings (Net)	500	10.4	406	8.7
Railways Contribution	150	3.1	267	3.6
Other forms of Debt	250	5.2	261	5.6
External Assistance	800	16.7	1,049	22.5
Deficit Financing	1,200	25.0	954	20.4
Gap to be covered by additional domestic resources	400		83	
Total:	4,800	100.0	4,600	100.0

Source: India Pocket Book of Economic Information, 1972, p. 287.

Greater reliance was placed on foreign assistance in the Second than in the First Plan. This is because of the fact that the Second Plan was perhaps the first big step towards self-reliance as envisaged under the new development strategy. Large scale imports were planned for the development of industries and the means of transport, and these could only be financed through external assistance. A complete picture of external assistance that India received during her first two Five Year Plans, including the sources of this assistance, can be had from the table given below: (table on following page)

The sum of external assistance utilized during the Second Plan has been about seven times the amount used or utilized during the period of the First Plan. If the U.S, P.L. 480 and P.L. 665 aid is included in it then total financial assistance is about 80 per cent higher than was foreseen by the Second Plan. We noted above the main reasons for the gap between authorisation and the utilization of this external assistance, and so do not consider it necessary to repeat the same here again.

The long term implications of this, increasing aid mostly of those of loans, were not grasped fully by the planners, especially in terms of the increasing burden of the external debt, and foreign exchange difficulties. Currently, however, this assistance helped India to tide over the balance of payments problem and related difficulties.

Next we may examine the case of deficit financing. Deficit financing was assigned a more important part in meeting the financial requirements in the Second Plan than in the First Plan. The amount

External Assistance to India Authorised and Utilised (Rs crores)

	Authorised First Plan	Authorised Second Plan	Utilised First Plan	Utilised Second Plan	Degree of Utilisation First Plan	Degree of Utilisation Second Plan
Aid India Consortium						
Total:	303.5	2,152.4	195.5	1,342.0	64.4	62.3
Canada	32.3	72.8	19.7	76.0	61.0	104.0
West Germany	-	135.2	-	120.5	-	89.0
Japan		35.8		16.4		45.8
U.K.	-	123.1	-	122.3	-	99.3
U.S.A.	213.6	1,525.0	142.0	784.0	66.5	51.4
World Bank Group	57.2	260.5	33.8	222.8	59.1	85.5
Communist Nations						
Total:	64.2	374.1	-	76.1	-	20.3
Czechoslovakia	-	21.2	-	-	-	-
Poland	-	14.7		-	-	-
U.S.S.R.	64.7	320.3		76.1		23.7
Other Nations						
Total:	13.5	12.3	6.2	12.2	45.9	99.0
Australia	11.1	2.2	5.2	7.4	47.0	336.0
New Zealand	1.7	1.7	0.3	2.9	17.6	170.0
Norway	0.7	1.9	0.7	1.9	100.0	100.0
Switzerland	-	6.5	-		-	-
Total Assistance:	381.7	2,538.8	201.7	1,430.3	52.8	56.3

Source: W. Malenbaum, Modern India's Economy, Ohio, 1971, p. 99.

Note: The sign (-) indicates not available and not utilised.

of deficit financing provided for in the First Plan was Rs 290 crores but the actual sum spent was more than that, i.e. Rs 333 crores, constituting about 17 per cent of the total outlay. During the Second Plan on the other hand, it amounted to Rs 954 crores against the provision of Rs 1,200 crores. So actual deficit financing was roughly 20 per cent of the total outlay.

The next important source consisted of the tapping of non-inflationary domestic resources like taxation, public borrowings and mobilization of small savings. Revenues from additional taxation by the central government, including the surplus from current revenues, was Rs 637 crores against the expected sum of Rs 570 crores. In other words, it provided about one third of the outlay in the First Plan, about six per cent more than the envisaged percentage. Second Plan outlay called for substantial step up in the tax effort. A number of new direct and indirect taxes were introduced which yielded Rs 1,054 crores or 22.4 per cent, which was considerably higher than the expected sum of Rs 450 crores or 9.4 per cent of total outlay. Another notable feature of taxation, was that total revenue as a proportion of National Income increased from about 7.5 per cent to abour nine per cent during the Second Plan period.

Public loans and small savings were also expected to yield larger sums. As regard the market loans, the target for the First Plan was Rs 115 crores but the actual sum raised was Rs 204 crores, i.e. about 89 crores more than expected. Collections from small savings also improved, the total collection being Rs 243 crores as against a target of Rs 225 crores. The target for these two sources taken together was set at Rs 1,200 crores, i.e. Rs 700 crores for market loans and Rs 500 crores from small savings. But the actual collection amounted to Rs 1,178 crores, slightly less than the envisaged sum. An important feature of the Second Plan was the introduction of a system of 'deferred credit', also known as compulsory deposit scheme. A portion of the new incomes went into savings at source in the case of the fixed income groups. Incentives for such deposits in the form of attractive interest payments were given to the businessmen and others.

Economic Policies:

Having discussed major aspects of the first two Five Year Plans after independence, we propose to deal briefly with the price and foreign trade policies of the government of India. First we examine the price policy.

Price Policy:

Right from the start, the government was in favour of a stable price level, but did not enunciate any measures for it because fluctuations in prices during the First Plan period were mild and did not create any serious problem. In fact, prices fell during this period and so the need for devising concrete policy measures was not felt. The control of prices was left solely to the Reserve Bank of India (India's central bank), with the idea that it will manage the situation with the help of selective controls on bank loans, etc.

During the Second Plan period, there was a persistent upward trend in prices as can be seen from the table below:

Wholesale Price Index (Base 1952-53 = 100)

	1956	1957	1958	1959	1960	1961	Percentage rise in 1961 over 1956
Food Articles	92.8	102.3	102.3	113.8	117.0	117.6	26.7
Cereals	86.0	99.0	95.0	102.0	103.0	100.0	16.3
Pulses	77.0	84.0	78.0	113.0	90.0	93.0	20.8
Raw Cotton	107.0	113.0	103.0	102.0	113.0	111.0	3.8
Oil Seeds	106.0	119.0	113.0	128.0	141.0	150.0	50.9
All Commodities	98.1	105.6	106.4	112.3	118.9	127.5	30.0

Source: V.T. Krishnamachari, Fundamentals of Planning in India, Orient Longman, New Delhi, 1962, p. 213.

Rising prices are undesirable for various reasons but most important of these,is the redistribution of incomes in favour of the businessmen and against the fixed income groups and those with very low incomes. Another disadvantage of the rising trend of prices is the emergence of speculation in commodities which offer windfalls,as against the much desired and badly needed long term investments having a national priority. Thirdly, the costs of production of the finished industrial products rise,leading to an impairment in their competitiveness in the international market. Keeping these facts in view, the government tried to evolve policy measures concerning prices of foodgrains and other essential commodities , which are examined below.

With regard to agricultural prices, the interests of the farmer and the consumer have to be reconciled. While the farmer has to be assured of remunerative prices, the consumer interest requires that prices do not rise sharply. During the Second Plan, the government made zonal arrangements for wheat and rice under which movement within the zone was free, but movement from one zone to another was regulated. This did not succeed much, because of lack of buffer stocks at the disposal of the government and secondly, because of the lack of control over the stocks of wholesale trade. There was also lack of a network of consumer cooperatives and cooperative marketing. So the situation was kept somewhat under control through P.L. 480 imports of foodgrains.

Secondly, the government also wanted to keep under control the prices of some other essential commodities which were in short supply, i.e. raw cotton, sugar, steel, coal and cement. In the case of most of these commodities, the prices are fixed by the Tariff Commission or special boards, while their distribution is controlled according to the priorities of the plans. This system did not work satisfactorily, and so the government announced its intention in the Third Plan of reviewing it through a special committee.

Foreign Economic Relations:

Next we may take up the question of foreign investments in and aid to, India, her foreign trade, and the government policies concerning these two. First, a policy statement with regard to foreign capital was made by the government on April 6, 1949 and this was later incorporated in the Industrial Policy Resolution of 1956. Following were some of the most important ingredients of the policy:

1. There will be no discrimination between Indian and foreign undertakings in so far as the government industrial policy is concerned.

2. Reasonable facilities will be given for the remittance of profits and repatriation of capital.

3. In the event of nationalisation fair and equitable compensation will be paid.

4. Major interests in ownership and control should be in the Indian hands.

5. Facilities of training of suitable Indians and their eventual replacing of the foreigners would be insisted.

Under this policy, foreign equity investment and foreign collaberations were permitted only in the priority areas where the import of foreign technology was needed. In other areas, import of technology was considered on merits and specially with an assurance that the product will largely be exported.

The private foreign capital in India has taken largely the form of direct business investments channelled through the branches of the principal foreign concerns. It has also taken the form of equity participation by the foreigners in a wholly owned conerns or purchase of shares in the indigenous concerns. Thirdly, private capital has also been in the form of collaboration. Now the question arises as to what were the quantitive results of the government policy towards foreign capital, in so far as capital inflows and its composition by industry and origin is conerned? This is seen only in terms of financial investments and not the technical colloborations. The table below gives a detailed picture between 1948-1961.

Distribution of Foreign Business Investment

from Private Sources by Industry

(Rs crores)

	Mid 1948 Investment	Mid 1948 Per Cent	Mid 1961 Investment	Mid 1961 Percent	Percentage Growth 1948 - 1961
Plantations (mostly tea)	52.3	20.4	103.8	17.9	198
Mining	11.5	4.5	12.4	2.1	108
Petroleum	22.3	8.7	148.6	25.6	666
Manufacturing	71.0	27.8	219.4	37.8	309
Trading	43.1	16.8	29.3	5.1	68
Construction,Utilities, Transport, etc.	31.2	12.2	41.3	7.1	132
Financial	6.8	2.7	6.3	1.1	93
Miscellaneous	17.7	6.9	19.3	3.3	109
Total:	255.9	100.0	580.4	100.0	227

Source: J. Bhagwati and P. Desai, op. cit., p. 221.

Most of these foreign private investments, as also the collaborations, came from U.S.A., Great Britain, Japan, West Germany, Switzerland, etc. As seen above, the governmental policies were helpful in several ways to the expansion of private capital, the same is largely true of the direct business investments in India. We shall further examine their role in Indian economic development in the next Chapter. We may now pass on to the trade policies and the balance of payments problem during the period of the First and the Second Five Year Plans.

Weakness of India's economic structure is reflected also in her foreign trade. For instance, Indian exports at the time of independence consisted largely of the agricultural and traditional materials like tea, raw cotton, oil seeds, tobacco, hides and skins, etc. Her imports on the other hand were mostly of manufactured goods of different types. In 1950-51, foodstuffs, raw materials, cotton goods and jute manufactures together constituted about 90 per cent of India's exports. These exports have an important characteristic and that is that demand for them has a very weak elasticity. Even when their prices fall, their demand rises very little,and consequently,export earnings tend to decline. On the the contrary, her imports of manufactured goods of the nature of both consumer goods and machinery, tended to increase because of the expanding needs of the economy when it embarked on a programme of rapid industrialisation. The development strategy adopted by India, as noted above, stressed the rapid expansion of heavy industries which called for large scale imports of capital and machinery. The planners did not seem to grasp its implications for foreign trade. The basic reason for this seems to have been the positive balance of trade which India had for long. The measures adopted in this connection bear the mark of expendiency rather than of far-sightedness.

During the First Plan, the policy was one of increasing freedom of importation, because this was considered healthy for India's development. This policy had to be suddenly changed during the Second Plan, because of the balance of payments difficulties. A new policy of import quotas was put into action in 1957. This policy was made more stringent in the closing years of the Second Plan, because of a situation of foreign exchange crises which ultimately lead to the devaluation of the Rupee in 1966. Under such drastic cuts of imports and fixation of quotas, future increase of investments and expansion of domestic production became quite uncertain. In other words, import restrictions and foreign exchange control measures caused difficulties and hardships for many enterprises and forced them to work below capacity.

Many efforts were made to increase exports but without much success. Several export promotion councils were created during the First and the Second Plans,which attempted to increase exports of cotton, silk, ryon fabrics, plastics, engineering goods, etc. Efforts were made to find new markets for Indian goods and also to participate in international fairs and exhibitions. The private industrialists and exporters did not do all that they could to find new outlets for their products. One great difficulty in their case was high cost of prospecting new markets. There were also no serious efforts to sell to the socialist countries by the private exporters. The government finally set up the State Trading Corporation (STC) in May 1956, with a capital of Rs 10 million, with the purpose of stimulating trade, mainly exports. The STC tried to develop exports to the socialist countries and succeeded to a large extent in increasing exports of items like metal ore, footwear, crafts, salt, tea, coffee and woollen goods.

On the whole, the measures adopted to improve the volume and the structure of India's foreign trade and to adapt it to her development needs were not quite impressive. There had been no perceptible increase in India's export trade as necessitated by the growth requirements of the Indian economy. So beginning with the period of the Second Plan, India began experiencing serious problems in the balance of payments situation. To this aspect, we may turn now.

The First Five Year Plan, as seen already, was not so ambitious as was the Second Plan and so called for little effort in the field of foreign trade. Out of the five years, four years showed a surplus in the balance of payments. Only the year 1951-52 showed a deficit but this had nothing to do with the large requirements for import of capital and machinery which in fact began with the onset of the Second Plan. It was a temporary fluctuation connected with some seasonal variation in demand. The balance of payments position for the First Plan period can be seen from the table below:

Balance of Trade & Balance of Payments

During First Plan (Rs Million)

	1951-52	1952-53	1953-54	1954-55	1955-56
Balance of Trade	-2,328	-311	-521	-872	-1,095
Invisibles	+ 702	+912	+995	+932	+1,294
Current Balance	-1,626	+602	+474	+ 60	+ 199

Source: C. Bettelheim, op. cit., p. 307.

Over the whole period of five years, the balance of payments deficit was about Rs 290 million or Rs 60 million per year. This was covered through foreign loans, as seen above. There were two important factors which accounted for these small deficits, the small imports of machinery and the large exports of agricultural goods because of the good harvests. Next we may examine the balance of payments position during the Second Plan period. Two factors which need to be emphasised for this period are increased imports of machinery,and capital for large scale development effort in the country, and secondly, unfavourable weather conditions and poor harvests. Besides, some international developments like the Suez Canal crises in 1957-58 also had their negative effect on India's balance of payments position. The table below gives the resulting figures of the balance of payments situation.

Balance of Trade and Balance of Payments

During Second Plan (Rs Millions)

	1956-57	1957-58	1958-59	1959-60	1960-61
Balance of Trade	-4,643	-6,095	-4,530	-3,040	-4,752
Official Gifts	395	327	356	380	452
Other Invisibles (Net)	1,125	1,009	904	754	376
Current Balance	-3,123	-4,759	-3,270	-1,856	-3,924
Official Loans	307	923	2,225	1,873	2,556
Other Capital Movement	20	933	883	306	936
Drafts on IMF	607	345		-238	-107
Errors and Omissions	16	-41	-291	-245	-63
Change in Foreign Exchange Reserves	-2,213	-2,599	-433	-160	-592

Source: C. Bettelheim, op. cit., p. 308.

The table shows a continuous deficit in the balance of trade, which reached about Rs 4,000 million by the end of the Plan. The balance of invisibles started falling and it went on upto the end of the Plan giving an annual deficit of about Rs 3,000 million in the balance of payments. All this led to a decline in India's foreign exchange reserves which dropped by about Rs 6,000 million during the plan period. This shows that India's dependence upon other countries increased. Second consequence of this situation was India's growing foreign debt.

Over the period of the First and Second Five Year Plan, there was a rapid increase in India's foreign debt. Between 1948 and 1959, this increased almost threefold. The growth of official or government's foreign debt was faster than the private debt. This can be seen from the following table:

Total Foreign Aid Debt

(Rs Millions)

	Official Debt	Private Debt	Total
End of June 1948	1.78	3.26	5.04
End of 1955	2.50	4.77	7.27
End of 1959	9.26	6.52	15.78

Source: C. Bettelheim, p. 310.

The private debt exactly doubled, i.e. plus 46 per cent during the First Plan and plus 37 per cent between 1955-59. Official debt increased much more rapidly and especially so during the Second Plan period. Its enlargement was about 5½ times or nearly 270 per cent. India's principal creditors by 1960-61 were in order of importance, U.S.A., I.B.R.D., U.K., West Germany, U.S.S.R., and Japan. There were two important long term implications of this increasing debt. In the first place, there was a considerable reduction in India's assets abroad, i.e. from Rs 20,000 million in 1948 to Rs 12.7 thousand million in 1955, and further to Rs 6.1 thousand million in 1962. Secondly, India passed from a position of net creditor to one of a net debtor. For instance, in 1962, India's net debtor position lay at about Rs 21 thousand million.

Conclusion:

The main objectives of the Five Year Plans have been faster growth and a more equitable distribution of wealth and income. To achieve these in a phased manner, the government formulated Five Year Plans and chalked out programmes for the development of the various sectors of the economy. It also set targets for expansion of productive capacity, and the production of various commodities in agriculture and industry. This task required allocation of investments and outlays to the various sectors in keeping with the programmes and the broad strategy of development. In order to fulfill the investment needs, the government had to look for the sources of finance, both domestic and foreign. Dependence on foreign resources increased, starting with the Second Plan, because of its being big, bold and ambitious. The ambitious nature of the Second Plan, and increased governmental and private expenditures, generated some inflationary tendencies in the economy, as also it created problems of balance of payments and an increasing foreign debt. Suitable policy measures were therefore called for to handle rising prices and foreign exchange, and foreign debt problems.

CHAPTER 4

Development Performance:

An Assessment of Results in Relation to Objectives

The Indian economic performance during the decade under review, while in some respects quite impressive, was still inadequate from the point of view of the needs of the Indian people. The progress during this period has been comparable with the growth performance of the present day developed countries during the early stages of their development, i.e. the 18th and 19th centuries. Also compared with her own performance before independence, she did remarkably well. There were definite visible signs of change in the national and per capita product, rate of investment, level of consumption, literacy, education, health services and so on, which moved consistently upwards. India began to experience several revolutions at this same time, which were spread over two centuries or more in the Western countries. These were revolutions in industry, agriculture, science and technology and in the social and political life. In the words of Malenbaum, "Industialization and urbanization, agrarian reforms and agricultural improvements, science and technology, equality and political rights, social and personal emancipation have been combining to transform a contented static rural ritualistic society into a new, dynamic one."[1] We may examine the main features of progress attained during the period of first two five year plans in the light of their objectives.

1) W. Malenbaum, Prospects for Indian Development, London, 1962, p. 207.

National and Per Capita Income:

The national income figures are available in two series, the conventional series and the revised series. The conventional series have their base in the year 1948-49. The revised series having their base in the year 1960-61, are more upto date. Either of these series can be used to express the pattern of growth. The national income was estimated to be Rs 10240 crores at 1960-61 prices in 1950-51. It increased to Rs 12130 crores by the end of the first Five Year Plan, and to Rs 14500 crores by the end of the Second Plan. During this period population increased by about 77 million people, i.e. from 361 million in 1950-51 to 397 million in 1955-56, and to 438 million by 1960-61. The per capita income at 1960-61 prices moved from Rs 284 in 1950-51 to Rs 306 in 1955-56 and to Rs 330 by the end of the Second Plan. The following table gives a complete picture of the growth of national and per capita income at the 1960-61 prices. Over

Growth of National and Per Capita Income

1960-61 Prices

Item	Unit	1950-51	1955-56	1960-61	Per cent increase over the decade
National Income	(Rs crores)	10240	12130	14500	42
Population	(Millions)	361	397	438	21
Per Capita Income	(Rupees)	284	306	330	16

Source: Third Five Year Plan, p. 35.

the whole period, the national income grew by about 42 per cent while the per capita income increased by 16 per cent only. Modest gains in in per capita income were due to rapid population growth which increased by 21 per cent during this period.

To have a comparative view of the growth performance, we must take the annual average increases in the national and the per capita income. At the 1960-61 prices, the national income grew at an annual average rate of 3.7 per cent over the period of the First Plan, and of 3.5 per cent during the Second Plan. The per capita income on the other hand, grew at the annual average rate of 1.8 per cent during the First Plan, and 1.3 per cent during the Second Plan. This can be seen in detail in the following table.

Planned and Realised Growth Rates

(Annual Average at 1960-61 Prices)

	Planned		Realised	
Plans	NNP	Per Capita Income	NNP	Per Capita Income
First Plan	2.5	1.0	3.7	1.8
Second Plan	5.0	3.6	3.5	1.3

Source: Second Five Year Plan and P. Chandhasy, Aspects of Indian Economic Development, 1971, p. 33.

Performance over the two plans was not uniform. For instance, during the First Plan the growth rate was higher than the target rate, while it was just the reverse during the Second Plan. Secondly, the growth rate during the First Plan was higher than the same under the Second Plan, both in terms of NNP and per capita income. These ups and downs are attributed to both the natural factors and the international developments.

Though the realised growth rate during the Second Plan fell short of the target rate of five per cent per annum it does not necessarily indicate any major failing of the planning effort, rather a growth rate of 3.5 per cent per year for this period is a considerable achievement. This rate looks more respectable when compared with the growth performance of about one per cent per year before independence,or when compared with the growth performance of the present day developed countries during their earlier periods of development. In the words of Dr. K.N. Raj, "The rate of economic growth that has been achieved in India since 1950-51 is two to three times as high as the rate recorded earlier under the British administration. As a result, the percentage increase in national income in the last 13 years has been higher than the percentage increase realised in India over the entire preceding half a century."[1)]

Rate of Investment:

There was a substantial increase in the rate of growth of investment as a result of planning. The rate of growth of net investment differed significantly over the First and the Second Plans. According to the Planning commission estimates,net investment grew at about 7.7 per cent per annum during the First Plan period,but only at about four per cent per year during the Second Plan period.

As regards the total investments, these increased rapidly during this period but remained below the target. At the 1960-61 prices, total investments, in both the public and private sectors were Rs 3360 crores during the First Plan. These increased to Rs 6750 crores during the Second Plan. Yearly growth was equally impressive, as the total

1) K.N. Raj, Indian Economic Growth Performance and Prospects, Allied Publishers, Delhi, 1965, p. 2.

investment was only Rs 500 crores per year in both the public and the private sectors in 1950-51. But it increased to Rs 850 crores during the period of the First Five Year Plan and to Rs 1600 crores per year during the Second Plan. The corresponding figures for the investment by public authorities were Rs 200, Rs 450 and about Rs 800 crores. The whole picture can be seen from the following table:

Outlays and Investments in First and Second Plans

(Rs crores)

Sector	Planned			Realised		
	First Plan	Second Plan	Total	First Plan	Second Plan	Total
Public Sector outlay	1960	4800	6760	1960	4600	6560
Public Sector Investment	1850	3800	5650	1560	3650	5210
Private Sector Investment	1650	2400	4050	1800	3100	4900
Total Investment	3500	6200	9700	3360	6750	10110

Source: Second and Third Five Year Plans

The above figures show that the public sector investments began to increase in relation to the private sector investments mainly because of the policy of a more important position for the public sector.

Thirdly, we may take investments as a percentage of national income. Total investment as percentage of national income was only five per cent in 1950-51. It was wholly financed, as seen already, from domestic savings. Both savings and investment increased overtime but at different rates. The ratio of investment to national income increased at a faster rate, and reached 08 per cent in 1955 and to about 12 per cent in 1960-61. The domestic savings on the other hand, grew at a slower pace, as it rose by only four per cent from five per cent in 1950-51 to about nine per cent in 1960-61. The differential rate of increase of savings and investments can be explained in terms of withdrawls from foreign exchange reserves, especially from India's sterling balances and credits secured from abroad.

The above discussion of the dimensions of investments calls for the following comments:

1. The government policy called for expansion of investment in both the public and the private sectors. The growth pattern of investments in these two sectors shows that expansion of the public sector favoured rather than harmed the private sector investments. We shall discuss more of this, when we come to the progress of sectors like industry, agriculture, etc.

2. Secondly, public investments have been financed to a steadily decreasing extent from the domestic sources. This is because of the fact that foreign aid increased from 12.7 per cent of public investment during the First Plan to 28 per cent during the Second Plan.[1)] The increases in the public sector investments have mainly been due to increased foreign aid.

3. The growth of the public sector's investment does not necessarily entail growth of public sector's economic power as will become evident in our subsequent discussions.

1) C. Bettelheim, op. cit., p. 154.

4. The incremental capital output ratio differed very much during the period of the two plans. During the Second Plan, it was much higher than what it was during the period of the First Plan. This can be seen from the table given below:

Incremental Capital Output Ratio

Period	I/y	$\Delta y/y$	Incremental Capital Output Ratio
First Plan	8	3.7	2.1
Second Plan	12	3.5	3.4

Source: condensed from the tables observed above

The incremental capital output ratio was much higher during the Second Plan than during the First Plan. This in a way explains the comparatively poorer performance of the Indian economy during the Second Plan period. A possible explanation for this seems to have been a greater emphasis on large and heavy industries and infrastructure, which had a longer gestation period and which could hardly be completed during the plan period itself.

Occupational Structure:

The present day developed countries experienced far-reaching changes in the occupational structures, during the process of their economic development. As development takes place, the relative importance of agriculture its contribution to national income, and to the employment proportion of the labour force, declines. The question arises therefore, if the Indian economy experienced such changes, with the beginning of her growth process. We may understand the position in this regard with the help of the following table.

Net Domestic Product by Sectors

(At 1960-61 Prices in Percentages)

Sector	1950-51	1955-56	1960-61
Agriculture, Animal Husbandary, Fishery, Forestry, etc.	53.8	52.8	51.4
Mining Manufacturing and Small Industry	20.3	20.5	20.0
Commerce Transport Communications	13.7	13.8	13.9
Other Services	12.2	12.9	14.7
Net Domestic Product	100.0	100.0	100.0

Source: Indian Planning Commission, Indicators, 1968, pp. 1-2.

In quantitative terms, the occupational structure of the Indian economy did not change much. The relative importance of agriculture remained almost the same,with its contribution to the net domestic product being the same over the two plans, i.e. more than 50 per cent. The plans did not fail to impress that there was a dire need for rapid industrialisation. The Second Plan allocated more resources to the development of this sector, under its new strategy of development, and also encouraged the development of the small scale and cottage industries. There is no doubt that there was a good deal of expansion of output capacity in both the public and private sectors,but the relative share of manufacturing in the Net Domestic product did not increase. Share of the services sector did indicate some marginal increments, but these too were not quite impressive.

Secondly, the employment proportions in the major sectors also remained almost the same. For example, the relative proportions of agriculture, manufacturing and services were 72.7, 10.1 and 17.2 in the year 1950-51. The corresponding figures for the year 1960-61 were 72.5, 10.8, and 16.7 per cent respectively for the primary, secondary and the tertiery sectors as described above. The question then is, why has the structure of both output and employment remained somewhat stable, inspite of the declared policy and the programmes to the contrary? The only plausible explanation for this, seems to be slow growth of the manufacturing and the services sectors of the economy, and excessive pressure of the increasing population on agriculture. An important consequence of the excessive dependence of the people on agriculture, was a further decline in the average productivity which was already very low. This would become clear from our further discussion of the output trends in the various sectors of the economy.

Output Expansion - Basic Sector:

The trend of agricultural production over the period under review can be seen from the table given below:

Index of Agricultural Production

Physical Quantities - 1949-50 = 100

Group	1950-51	1955-56	1960-61
All crops	96	117	135
Food crops	91	115	132
Other crops	106	120	142

Source: Third Five Year Plan, p. 36.

Agricultural production, as the index shows, increased substantially over the period of the two plans. This is true of both the food and the nonfood crops. The total agricultural production rose at the rate of about three per cent per year upto the beginning of the Third Five Year Plan. During this period foodgrains production increased at a rate of about 2.8 per cent, and that of the nonfood crops at a rate of about 4.8 per cent.[1] We may turn now to examine the situation with respect to the major agricultural crops.

Production of various agricultural commodities also increased substantially, especially that of foodgrains, oil seeds, sugarcane, cotton, jute, etc. The table below gives a detailed picture of this.

Production of Major Crops

Crop	Unit	1950-51	1955-56	1960-61
Foodgrains, etc.	Million tons	52.2	65.8	76.0
Oil seeds	"	5.1	5.6	7.1
Sugarcane	"	5.6	6.0	8.0
Cotton	Million bales	2.9	4.0	5.1
Jute	Million bales	3.3	4.2	4.0

Source: Third Five Year Plan, p. 37.

The figures above indicate a rising trend of agricultural production in India starting with the First Plan. What this increased production was due to?

1) P. Chandhary, op. cit., p. 48.

Increase in the production of agricultural commodities was made possible largely by two important factors, the increase in the yield per acre and extension of the area under cultivation. The increase in the yield per acre seems to have been due the various programmes undertaken by the government to increase production. Some of these related to the extension of irrigation facilities, supply of chemical fertilizers, development of local manures, distribution of improved seeds, insecticides, etc. Extension of the areas under cultivation was made possible largely by land reclamation and development.

The areas under irrigation also increased with the expansion of the irrigation facilities, and this too contributed towards an increase in agricultural production. The net area under irrigation was estimated to be 51.5 million acres in 1950-51. With the availability of additional irrigation facilities during the First and the Second Plans, it increased to 70 million acres. Besides, the major and minor irrigation works undertaken during this period were further expected to increase it by 38 million acres after completion. About four million acres were reclaimed by the end of the Second Plan. Supplies of inputs like chemical fertilizers, urban compost, local manures, green manuring were also adequately increased during this period.[1] The social and institutional aspect of agriculture, we shall discuss under the attainment of the fourth goal or objective of wealth and income equality.

Now if we review the progress achieved in the field of agriculture as the whole, we do find it to have been commendable, especially when we compare it with its performance in the past and the international

1) GoI, Third Five Year Plan, p. 37.

standards. But when we look at it from the point of view of the increasing demand for agricultural goods, especially the foodgrains and the raw materials, because of the rapid growth of population and rising incomes, it looks quite inadequate. This is also evident from the food shortages during and after the Second Plan, and food imports under the P.L. 480 programme of the U.S. government. We may sum up the whole situation in the words of Dr. K.N. Raj: "These rates of growth are no doubt inadequate to sustain the overall rates of economic growth which the Indian economy needs to achieve now for making a visible dent on poverty and unemployment in the country: there is certainly no room for complacency. But it is important to recognise that the rates already realised do not compare very unfavourably with the rates recorded in other countries placed in broadly comparable situations."[1)]
So inspite of a satisfactory growth rate of agricultural production, the fact remains that the Indian economy had to depend on food imports to meet her food deficiency. Food grain imports rose from 1.4 million tons in 1956 to 3.2 million tons in 1958, and to about four million tons in 1960-61.[2)]

Industry and Minerals:

Despite insufficient progress in agriculture, the rate of industrial expansion was quite high during the period of the first two Five Year Plans. Although there were wide yearly fluctuations, the average rate of expansion was about six per cent per year - between 1951 and 1961.[3)] This rate though quite impressive, it was still below expectations and insufficient for the needs and capacities of the country. The table

1) K.N. Raj, op. cit., p. 4.
2) C. Bettelheim, op. cit., p. 177.
3) Ibid, p. 236.

below gives a detailed idea about the industrial production for the decade under review.

Industrial Production 1951-1961

(Index; 1956 = 100)

1951	73.5
1955	91.9
1960	130.1
1961	141.0
1962	153.3

Source: C. Bettelheim, op. cit., p. 236

The table shows a consistent trend of increasing industrial production since 1951, but in overall terms, only 85 per cent of the real industrial growth projected for 1960-61 had been achieved.[1] But the question that arises is whether it has been according to the broad priorities of the plan?

There had been no clear indication of industrial priorities in the First Plan,and the government seemed broadly to be interested in adapting the economy to the needs of the moment. The processing industries producing consumer goods, which were in the private sector, also concentrated mainly on the utilization of their existing capacities rather than on their further expansion. The Second Plan had on the other hand had a definite policy and priorities for industrial expansion. With the availability of rich natural resources, the Second Plan emphasised the development of basic industries in order to pro-

1) W. Malenbaum, Modern India's Economy, Ohio, 1971, p. 165.

vide a sound industrial base for future industrialisation. We have underlined the details of this strategy above. Now the question that arises is about how far these priorities were put into practice.

Pattern of Industrial Development:

The main emphasis of the plans which has been the expansion of investment goods, had to a great extent, been realised as their importance in relation to both consumer goods and intermediates increased over this period. This we can see in terms of their contribution to the gross value added, or to the gross output at market prices relatively to the other two categories. The following table gives the complete picture of this:

Change in the Relative Importance
of Industries

Gross Output at Market Prices
(in percentages)

Group	1951	1961
Consumer Goods	65.35	53.53
Raw Materials and Intermediates	30.54	31.54
Investment Goods	04.11	14.93
Total	100.00	100.00

Source: J. Bhagwati and P. Desai, op. cit., p. 106.

The figures indicate a clear increase in the relative importance of the investment goods. This development is essentially in keeping with the broad tilt in the industrial policy towards basic industries. We may now consider the progress achieved by various industries during this period.

Realised Progress in Various Industries 1951-1961

Industry	Unit	1950-51	1960-61 Planned	1960-61 Realised	Percentage increase
Finished Steel	Metric Tons	1.0	4.3	2.4	140.0
Aluminum	Thousand Tons	3.7	25.0	18.3	400.0
Machines for cement industry	Value in Million Rupees	-	20.0	6.0	
Machines for sugar industry	Value in Million Rupees	-	25.0	44.0	
Machine Tools	Value in Million Rupees	.03	30.0	70.0	2200.0
Electric Motors	1000 H.P.	100.0	600.0	728.0	600.0
Ammonium Sulphite	1000 Tons	.09	305.0	99.0	1000.0
Phosphates	1000 Tons	.09	72.0	54.0	500.0
Sulphuric Acid	1000 Tons	101.0	470.0	368.0	265.0
Bicycles	1000 Units	99.0	1000.0	1071.0	980.0
Motor Cars	1000 Units	16.5	57.0	55.2	234.0
Cotton Goods	MN Metres	4215.0	7770.0	6738.0	60.0
Sugar	Metric Tons	1.1	2.2	3.0	173.0
Cement	Metric Tons	2.7	13.0	8.0	196.0
Refined Petroleum Products	Metric Tons		4.3	5.8	
Paper and Card-board	1000 Tons	114.0	350.0	350.0	2.7

Source: C. Bettelheim, op. cit., pp. 250-51.
NOTE: (-) means figures not available.

Figures given in the above table show the following important characteristics of the industrial expansion:

1. Most rapid expansion took place in the industries producing machines, like tools, machines for the cement industry and sugar industry, and in chemicals and fertilizers.

2. In the basic industries, petroleum products and cement expanded rapidly. But in metallurgical industries and the equipment industries, progress was relatively slow.

3. Industries producing consumer goods developed even more slowly than others, although they had shown a rapid increase during the period of the First Plan. This may have possibly been because of slow growth of demand for them during the Second Plan period.

4. Lastly,some of the industries not included in table also expanded at a faster rate. For example, the production of locomotives and wagons which was non-existent in 1950-51 reached 250 and 33,000 units respectively per year at the end of the Second Plan.

Even though statistically,there had been impressive expansion in the industrial capacity and production, but this did not keep pace with the requirements of the economy. This is evident from the fact that dependence on imports of machinery and capital did not decrease, and this led to foreign exchange difficulties, which we shall discuss further below. In short, we may say that though industrial production as a whole increased,and there were some important structural changes within the industrial sector, the achievements were not upto India's requirements.

Another important aspect of industrialisation process has been the role assigned to the public sector. Let us turn now to consider the relative performance of this sector.

A good deal of new industrial investment in India has been in the public sector as we saw in the previous chapter. The industries in this sector are also important because of their qualitative significance, as they are heavily biased in favour of the producer goods such as steel, heavy machinery, machine tools, fertilizers, etc. In so far as the industrial investments in the public sector are concerned, they have been about 25 per cent of overall public sector investments. Though an exact composition of the industrial outlays is not available, a general idea can be had from the investments in public sector enterprises under the central government, which constitute the bulk of the industrial investment.

Cumulated Investments in Public Sector
by Sectoral Projects

(Rs crores) in the year 1963

	Amount	Percentage
Steel	804	47.16
Engineering	269	15.78
Chemicals	172	10.09
Petroleum	170	09.97
Mining and Minerals	130	07.62
Aviations & Shipping	92	05.40
Financial Institutions	06	0.35
Building & Repairing Ships	09	0.53
Miscellaneous	53	3.11
Total	1705	100.00

Source: J. Bhagwati and P. Desai, op.cit., p. 139.

Of these steel, engineering, chemicals, petroleum and mining and minerals,constituted 90 per cent of the aggregate public sector enterprise investments (cumulated) at the end of the Second Plan.

Along with the expansion of the public sector in the industrial sphere, there was a perceptible expansion of the private sector enterprises both in the producer goods and consumer goods categories. In the last chapter, we have had a general idea about the total private investments during the First and the Second Plans, and the share of the private industrial sector in them. Now we may make some general observations about this sector. The expansion of the public sector was considered in some quarters to be an encroachment on the private sector, especially where both were to co-exist. But this did not happen, instead the expansion of the public sector and several other measures adopted by the government, helped in the expansion and growth of the private sector.

In the first place, expansion of government expenditure and its demand for various products created favourable conditions for the large scale private investment and production. Secondly, increased government expenditures increased monetary incomes of those supplying goods and services and thus created favourable conditions for output expansion. Thirdly, the public authorities encouraged private investments in several other ways, like tax concessions and subsidies to new enterprises, loans on favourable terms through the network of newly created financial corporations like Industrial Finance Corporation (FCI), the National Industries Development Corporation (NIDC), the Industrial Credit and Investment Corporation of India (ICICI), reduction in customs duties, etc. These concessions were extended to foreign enterprises also and they too had an equal opportunity of expansion and growth along with indigenous enterprises. Besides, these enterprises were also helped through various budgetary measures. For instance, some of the measures permitted easy transfer of dividends from one company to another, large exemptions from taxation in respect of interest payments on new investments, carrying forward of losses to the future, etc. All these measures taken together, had a favourable effect on the expansion and growth in size and scale of the various private sector enterprises. Moreover, the control measures of the government, in the form of industrial and import licenses, regulation of foreign exchange, and issues on the stock exchange, did not have any adverse effect on the expansion of private enterprise and its increasing economic power. This was so because the Industries Development and Regulation Act passed in 1952, besides giving extensive powers to the government for the regulation of some industries, also provided for the setting up a central advisory council and various departmental councils. These councils had on them the representatives of the private sector especially the big capitalists and industrialists. These representatives of the big private enterprises had thus an important share in influencing government decisions on matters relating to large industries. Big industrialists like B.M. Birla, L. Singhania, K. Mahindra were members of the central advisory committee. Similarly, D. Tata, G. Birla and L. Lalbhai were important members of the National Industrial Development Corporation. These and several other such examples prove that there was a greater share of the private sector, particularly monopoly capital in shaping the actual line of action, as against the declared policies. Moreover, government measures like industrial licencing and price fixing of some of the industrial products like cars, scooters, etc. shut out healthy competition and gave a virtual monopoly of their production to the big industrialists. Added to all the above factors, were the pressure tactics of the big monopoly capital and their connivance with ministers and the bureaucrats high up in the government. All this led to the growth of monopolies and big business houses, and a concentration of economic power in their hands. We shall return to this aspect for a detailed discussion in our study of the realisation of the fourth important objective of the plans, i.e. equal distribution of income and wealth.

Village and Small Industries:

Our discussion of industrial progress would not be complete without a reference to village and small industries. A sum of Rupees 218 crores was spent under the First and the Second Plans. The official attitude from the very beginning was that small scale industry should undergo considerable development, especially in the field of handicrafts and village industries. This is so because of several reasons, important among these being Gandhian principles of decentralisation and a hatred for urban development, the problem of unemployment and under-employment, and an increase in the production of consumer goods with comparatively small investment. These ideas were amply stressed in the Five Year Plans.

The methods suggested and used to encourage small scale industry included, 'internal protection' by forbidding competition from the rival large scale industry, subsidies, financial and technical aid, tax rebates, etc. For the coordination of the working of these industries, and for giving them necessary guidance, all India Boards were set up. Industrial extension service and small industries service institutes were established in every state, along with 53 extension centres all over the country. About 60 industrial estates were also established which could on the average include about 1000 small factories using power. Facilities for credit, technical advice and supply of raw materials and machinery on hire-purchase basis were also made available. As a result, there grew a class of vigorous entrepreneurs, over the period of one decade, who have been responsible for effecting large increases in production, varying from 25 to 50 per cent in the case of a large number of products of these industries. For example, production of cotton goods, in this sector, rose from about 800 million metres in 1950-51 to about 3.1 thousand million metres at the end of the Second Plan. Other industries which experienced remarkable progress were tanning, production of oil, sugar (Khandsari and Gur) rice husking, etc. Besides, these industries have also been able to provide considerable employment to the educated and uneducated people in the rural as well as the urban areas.

In urban areas these industries still face some problems, which sometimes endanger their very existence. Lack of adequate market and severe competition from the large scale industries, non-availability of financial and technical assistance on the required scale, supply of raw materials, etc. are some of their important difficulties. Growth of small industries in the rural areas, on the other hand, is limited by the extent of market for them. This is because of poverty and slow progress in agriculture.

Employment Expansion:

So far we have discussed the performance of the Indian economy in terms of the first two objectives, i.e. a sizeable increase in the national and per capita incomes, and rapid industrialisation with the emphasis on basic and heavy industries. We turn now to the third one, that of expansion of the employment opportunities. The First and the Second Five Year Plans did not evolve any special or specific programmes for the expansion of employment opportunities directly. The planners instead believed that new employment opportunities would automatically arise with the overall expansion of the economy. This is particularly true of the Second Five Year Plan, which discussed this problem in all the possible details and envisaged to provide the jobs to all the new entrants in the labour market, as well as to the underemployed in agriculture. But at the same time, it recognised that full employment was just not feasible in the short period. This was so because there was a conflict between the output and employment objectives, as the Second Plan equated a high employment strategy with high consumption and low investment strategy. It was in the light of this argument that the planners thought that the problem of unemployment and underemployment could be tackled in the long run through the expansion of the existing productive capacity of the economy, which called for a high rate of investment. In other words, industrialisation was considered to be the solution for the unemployment problem.

The problem of rural unemployment and underemployment was to be tackled with the help of rural works' programmes and small scale industry, especially the one concerned with the production of handloom cloth. We may now examine the record of employment creation since the beginning of the First Plan.

As seen already between 1951 and 1961, the total population of India increased by about 77 million and it added a great deal to the unemployment problem. The picture of unemployment and underemployment remained hazy upto the beginning of the Second Plan, for the lack of the necessary data and figures relating to this problem. The Second Plan estimated unemployment at about 5.3 million in 1955-56, and expected an addition of about 11 million people to join the ranks of unemployed in the five year period ending 1960-61. This can be seen from the table below:

Employment and Unemployment
During the Various Plans (In Millions)

Item	First Plan	Second Plan
Backlog at the beginning of the Plan	4.1	5.3
Additions to Labour Force	5.7	11.7
Total Job Requirement	9.8	17.0
Employment Created	4.5	8.0
Backlog at the end of the Plan	5.3	9.0

Source: Second Plan, pp. 110 and 119 and the Third Five Year Plan, pp. 156-159.

As regards the task of employment expansion, it fell short of the targets and the needs. During the period of the First Plan, only about 4.5 million new jobs could be created leaving a backlog of 5.3 million of the unemployed (as estimated by the Second Plan). Though the First Plan did not fix any definite target, it may be said that its employment generation activity was far less than the needs of Indian people. Similarly, the Second Plan fixed a target of 10 million new jobs over the five year period, but the actual number of new jobs fell short of the target by about two million. The backlog of unemploymnet increased to about seven million at the beginning of the Third Plan. The Third Plan, put this backlog at nine million instead of seven million,because of the belief that the increase in the labour force during the Second Plan,was greater than it was visualised earlier. Of the eight million new jobs created during the Second Plan, only 1.5 million were estimated to be in agriculture and the remaining 6.5 million were in other sectors. Likewise, the problem of underemployment also continued increasing in its magnitude with the increasing population. Though no correct and exact figures are available, the Third Plan put it between 15-18 million.[1] One can imagine the plight of the unemployed and the underemployed,when they have to go without even the bare necessities of life. The planners though,paid some attention to this problem, but not as much as required.

A word may be added about the nature of underemployment in the rural areas. In general,during the busy agricltural seasons a shortage of labour is experienced in most parts of the country. But for a greater part of the year,workers engaged in agriculture are without

1) GoI, <u>Third Five Year Plan</u>, 1961, p. 156.

any continuous work. Before the coming of the British rule in India, there used to be handicrafts and cottage industries which kept people busy during their spare time. With the decay of such industries during the British rule, a useful source of income and employment was destroyed. The problem assumed alarming proportions with the increase in population, especially since 1951. According to the 1951 census about 100.6 million people were engaged in the primary sector, but by 1961 their number increased to 136.2 million. In the absence of alternative employment, they had to fall back on agriculture. The main problem with this type of unemployment is that apparently all seem to be working and employed, but their productivity and resulting incomes and standard of living are miserably low.

Levels of Living and Distribution of Income and Wealth:

An average Indian is among the poorest in the world, and one of the main objectives of planning in this country has been to improve the lot of the masses, and to reduce the extent of economic and social inequality. But sadly enough, the progress in this respect has remained far from satisfactory. Even after the planned efforts to ameliorate the conditions of the masses, nothing perceptible was achieved during the First and the Second Plans. Even at the end of the Second Plan, two out of three persons eked out only a marginal subsistence.

This problem of poverty has two aspects, absolute and relative. The absolute level of poverty depends on per capita income and per capita consumption. Distribution of income among the various sections of people determines the extent of relative well-being or otherwise of the people. These two aspects may be discussed in turn.

Standards of living in the first place, depend on the level of income and then also how well and long the people live to enjoy it. In India, life expectancy did improve over the period under review because of the public health measures adopted by the government to check epidemics and some of the mass ailments. The average life expectancy therefore, improved from 33 in 1941 to about 41 by 1961.[1)]

The second factor influencing the level of living is per capita income, and the availability of basic necessities. In the year 1960-61 per capita consumption expenditure was Rs 276.3 per annum or about 75 Paise per day per person, which adequately indicates the level of living prevailing in India at the end of the Second Plan.[2)] On the basis of minimum nutritional requirements of food of about 2250 calories per head per day, a per capita expenditure of Rs 180 per annum or Rs 15/= per month in rural areas and per capita expenditure of Rs 270/= per annum or Rs 22.25 per month in urban areas, were regarded as the nationally desirable minimum level of consumer expenditure in 1960-61. Considered on this basis, about 40 per cent of the rural and 50 per cent of urban population lived below the desirable minimum. In other words, about 180 million people lived on diets which were deficient, even in respect of calories let alone the essential nutrients.[3)]

The question then that arises is as to why the average standard of living of the Indian poor did not improve even inspite of increases in agricultural and industrial production and improvement in public utility and other essential services? There is no doubt that production of food grains increased and many new goods were added to the basket of an average

1) Government of India, Ministry of Finance, <u>Pocket Book</u>, 1968.
2) V.M. Dandekar and N.K. Rath, "Poverty in India" in <u>Economic and Political Weekly</u>, January 2, 1971.
3) Loc. cit.

consumer. Some important new commodities were: bicycles, radio sets, new varieties of cloth, watches, steel and aluminum utensils, plastic wares, etc. Enrollment in the schools and Universities for technical and non-technical courses improved, and the number of qualified doctors, teachers and other professional people increased. But it should not be forgotten that these benefits were available only to those people who were living above the poverty line. Those living below this line were finding it hard even to make both ends meet, let alone the items of comfort. The growing population and unemployment, made things worse than the average figures mentioned above indicate. The employment problem in a underdeveloped country like India, is an integral part of the problem of poverty because employment is the only source of income for the poor masses.

The second aspect of the problem of poverty, is the influence of income distribution on the level of living of the people. Wide disparity exists in India as regards the distribution of income and wealth. As against the cherished goal of greater economic equality of the Five Year Plans, the distribution has become more skewed. This fact was brought to light by the Mahalanbis Committee in its report on distribution of income and levels of living. The report pointed out that there was good deal of inequality in the country which could not be justified on any functional grounds.[1] The Committee based its report on the findings of various institutions like Reserve Bank of India (RBI), National Council of Applied Economic Research (NCAER), etc.

1) P.C. Mahalanobis, Ed. Report of the Committee on Distribution of Income and Levels of Living, 1964, p. 14.

The main findings on the state of personal income distribution of the Mahalanobis Committee,have been that the pattern of distribution did not change in favour of the poor even after a planned effort for a decade, to do so. Instead, the extent of inequality increased. This can be seen from the following table:

State of Personal Income Distribution

Fractile Groups	RB1 estimates 1953-54 Rural	Urban	NCAER estimates 1960-61 Rural	Urban
Top 5 per cent	17.0	26.0	-	31.0
Top 10 per cent	25.0	37.0	33.6	42.4
Top 50 per cent	69.0	75.0	79.3	83.0
Bottom 20 per cent	9.0	7.0	4.0	4.0

Source: Report of Committee on Distribution of Income and Levels of Living, 1964, p. 14.

The top 10 per cent of the people saw some improvements in their favour, both in the rural and urban areas. The share of the bottom 20 per cent decreased in the urban areas, as well as in rural areas. So income inequality instead of decreasing, increased over the years. Two main reasons were given by the above mentioned report for the growing inequality. In the first place, unemployment and underemployment were responsible for it. With growing population, underemployment also increased and with this, the poor grew poorer and the rich richer. In the second place, concentration of wealth and economic power in the hands of a small minority of people had also been responsible for increasing disparities.

Concentration of Economic Power:

Concentration of wealth and economic power can be judged from the distribution of real assets of the country among various classes or sections of the people. Several studies have been conducted in this respect,but the most reliable,are the ones made by the Mahalanobis Committee in 1964 and the Monopolies Enquiry Commission in 1965.

According to the Mahalanobis Committee report cited above, the degree of concentration with regard to landholdings has been quite high. For instance, in 1953-54, the top one per cent of the households owned about 17 per cent, top five per cent owned 41 per cent and the top 10 per cent owned 58 per cent of the total ownership of landholdings of the households in the rural areas. In 1959-60, these proportions were 16,40,56 respectively. The bottom 20 per cent of households did not own any land in either of these two periods. This situation is summed up in the following table:

Distribution of Land Ownership
among the Rural Households

Households	Percentage share in ownership of land holdings	
	1953-54	1959-60
Top 1 per cent	17	16
Top 5 per cent	41	40
Top 10 per cent	58	56
Bottom 20 per cent	Nil	Nil

Source: Report of the Committee on Distribution of Income and Levels of Living, p. 20.

The degree of concentration in respect of urban land distribution was even greater. For example, in 1953-54 the top five per cent of urban households owned 52 per cent,and operated 75 per cent of total urban land belonging to households. The top 20 per cent owned 93 per cent, and operated practically the entire land. The bottom 20 per cent neither owned nor operated any land at all. This pattern of land ownership did not show any change upto the end of the 50's of the present century, and remained practically the same upto the end of the Second Plan as can be seen in the table below.

Ownership and Control of Land
(Percentages)

Households	1953-54 Owned	1953-54 Operated	1959-60 Owned	1959-60 Operated
Top 5 per cent	52	75	62	80
Top 20 per cent	93	100	95	100
Bottom 20 per cent	Nil	Nil	Nil	Nil

Source: Report of the Committee on Distribution of Income and Levels of Living, p. 21

Two important conclusions can be drawn from the above table. Firstly, there had been a high degree of concentration of land holdings in India both in the rural and urban areas. A considerable proportion, i.e. 20 per cent of the households did not own any land at all. Secondly, despite the socialist measures of abolition of intermediaries and the slogan of 'land to the tiller', no appreciable change came about in the rural areas during the period of the first two plans. The position in the urban areas seemed still more static.

The Mahalanobis Committee made also a study of the distribution pattern of dividend income and concentration of economic power in the private corporate sector. Its conclusion was that there was heavy concentration of wealth in the hands of the private capitalists and family business houses. It also pointed out that planning and other government policies,were responsible for encouraging the process of concentration by facilitating and helping the growth of big business in India (as we have partly discussed above and shall study more of it below). This fact was further confirmed by the Monopolies Enquiry Commission in its report published in 1965. The commission enquired into two main types of economic concentration, (excepting agriculture and banking institutions) and these were product wise and industry wise concentration. As regards the product wise concentration, the commission examined about 100 important products. By using the following standards, it tried to establish their concentration ratios:

1. Concentration is high where the share of three top producers is 75 per cent or more.
2. Concentration is medium where their share is between 60 and 75 per cent.
3. Concentration is low where their share is between 50 and 60 per cent.
4. Concentration is nil where their share is less than 50 per cent.

The report concluded that there was high concentration for 65 commodities, medium concentration for 10 commodities, low concentratration for eight commodities,and nil concentration for 17 commodities.

As regards the industry wise concentration, the commission made a study of 75 private business houses which controlled 1536 companies. In 1963-64, the assets and paid up capital of these 75 private business houses amounted to Rs 2605 crores and Rs 646 crores approximately. In percentage terms, this meant 50 per cent of assets and about 44 per cent paid up capital. The richest four or five of these private business houses, occupied a pre-dominant position in the industrial economy of India. For example, Tatas at that time had 53 companies with paid up capital of Rs 102 crores and assets worth Rs 417 crores. Birlas had 151 companies with the paid up capital of Rs 76 crores and assets worth Rs 292 crores. Martin Burns had 21 companies with a paid up capital of Rs 22.28 crores and assets worth Rs 150 crores. Bangurs had 81 companies with a paid up capital of Rs 19.68 crores and assets worth Rs 77.91 crores. All these are private corporations or companies wherein the major portion of capital and assets are owned by the members of a single family. The above information shows therefore, that a few privat business houses controlled almost the entire large scale private industrial sector.

In so far as the causes of concentration of economic power and the growth of monopoly capital in India is concerned, the Dutt Committee Report[1)] brought to light some important facts. According to this committee, the large private industrial houses secured undue advantages over other applicants in the matter of the issue of licences. In this way, they could manipulate to prevent the entry of new entrepreneurs. Moreover they often failed to make full use of the licenses but managed to retain them somehow or the other, i.e. by connivance

1) GoI, Report of the Industrial Licencing Policy Inquiry Committee, July 1969.

with the politicians and the bureaucrats who were highly placed in the government. An important consequence of this,was that they could not fulfill the targets laid down for them in the plans. So industrial licensing instead of being an instrument of control over the industries, and an instrument of industrial development, actually became an impediment in its way, by shutting competition completely out. Identical views had been expressed in the Hazari Report.[1)]

An overall conclusion that can be drawn from the views recorded in various reports, is that there has not only been a concentration of wealth in India, but the programmes and the policies adopted by the government for economic development actually enabled the private sector, to subsist on public cost and further breed on it. We have already discussed some of the aspects of this question in our study of industrial progress, and the expansion of the public and the private sectors. We shall discuss further more of this in the next chapter.

Land Reforms:

As far as land reforms are concerned, it is now generally believed that the progress made in this field falls far short of the requirements. In respect of the abolition of Zamindars or intermediaries, there has, no doubt, been some progress, but there have also been large scale "Benami" (fictious transfers in the names of the individuals who do not exist) transfers of land both to avoid ceiling limits and to keep the land under control. Such transfers stalled to a great extent the very purpose of abolishing the intermediaries. The same is true of the other two aspects of the land reforms, i.e. tenancy rights and the fixing of rents, and a reorganisation of the agricultural structure.

1) R.K. Hazari, Report on Industrial Planning and Licensing Policy, 1967.

Tenancy rights have not been clearly defined and remain vague to a large majority of the illiterate rural folk. As a result, the tenants could be easily evicted through pressure and/or other methods. Similarly, the rents charged in reality have been much higher than the fixed ceilings. Big landlords who weild a lot of economic power in the rural areas, look with frown and hatred any efforts towards village reorganisation in the form of consolidation of land holdings and their redistribution as economic holdings. Laws concerning ceilings on land holdings, have also not been properly implemented because of various loopholes in the existing laws. For instance, a landlord may convert a part or whole of his land, into an orchard or a fruit garden and thus avoid the ceiling law. There are several other ways in which the land reforms have largely been stalled. Failure of land reforms therefore, has been because of lack of proper implementation at the state level and because of resistance from the powerful landed class at the village level.

Whether land reforms would have helped in increasing productivity is rather difficult to say, because of the conflicting findings of research about the size of holdings and productivity and the role of incentives in this regard. But what can be said somewhat more positively, is that land reforms were essentially to be a step forward in the direction of equality of wealth and income distribution. Assuming that these reforms would also have helped to increase efficiency and productivity along with equity, lack of adequate progress on this front stood in the way of increased agricultural productivity and social justice. So despite the slogan of the "land to the tiller" and the socialist aim of landreforms, no appreciable change took place in the rural areas.

Expansion of Social Services:

Social services are generally included in the standard of living, although access to them varies according to the region, place and the social stratum of the people. These services consist mainly of public health, education, etc.

Public Health:

As seen above, mortality rate in India before 1951 was about 40 per thousand, and the working capacity of the people was also very low. At that time public expenditure on medicine, health services, and sanitation was not more than Rs 30 crores, which was less than one rupee per inhabitant. The First Plan allocated a sum of Rs 459 crores and the Second Plan a sum of Rs 830 crores for an increase in the amount of the social services, including the construction of hospitals dispensaries, sanitary units, etc.

There was no doubt some progress achieved in the provision of additional health measures, but over all, progress was not quite satisfactory in view of the rapidly rising demand for such services from the increasing population and also because of the miserable conditions that had prevailed. For instance, number of hospital beds though almost doubled between 1951 and 1961, still these were too few, i.e. 240,000 beds[1], for a population of about 44 crores. The development of health services became restricted also because of shortages of doctors, nurses and other sanitary personnel. The number of doctors increased very slowly, so that by 1959-60 there were only 86,000 doctors, i.e. one doctor for 5000 inhabitants roughly. This difficulty was worsened further, because of the unwillingness of the qualified doctors to work in the rural areas.

1) C. Bettelheim, op. cit., p. 319.

Despite increased public expenditure, the progress was not quite satisfactory because of the alarming proportions of the problem, especially in the rural areas. No doubt a commendable progress was achieved in reducing the mortality rate from about 41 to 22 during the decade, general sanitation conditions remained poor still. Due to the falling mortality rate, the government became concerned from the Second Plan onwards, with the family planning programme, in order to reduce the birth rate too. But these efforts did not make much headway upto the end of the Second Plan because birth rate remained very high, i.e. 41 per thousand against the declining death rate of 22 per thousand.

Education:

Some development has been made in the field of education, both at the school and the University levels. We may have a general idea of the improvement in the educational services from the school and University attendance, and how it improved over time. The following table shows the number of students between six and 17 years of age:

School Attendance

Pupils (in millions)

	Age Groups			Per cent Per Age Group		
Year	6-11	11-14	15-17	6-11	11-14	15-17
1950-51	19.2	3.1	1.2	43.1	12.9	5.4
1955-56	25.2	4.3	2.0	51.0	16.3	8.1
1960-61	35.0	6.7	2.9	62.4	22.6	10.5

Source: C. Bettelheim, op. cit., p. 321.

Though school attendance in general went up by 62 per cent for the children between six and 11, there was still a large percentage who were deprived of this facility, especially in the rural areas. This is evident from the fact that illiteracy which was wide-spread in 1951, had dropped to only about 75 per cent in 1961.[1] Similarly there was not much improvement in the quality of education, both at the primary and the secondary levels.

The University education expanded more satisfactorily than the school education, but this expansion too has not been according to the requirements of the country. A larger proportion of students went in for arts and commerce courses, rather than for science or the technical courses like engineering, medicine, etc. The number of arts colleges has far surpassed the needs of development, while that of technical colleges and institutions has remained quite low. At the end of the Second Plan, there were 46 Universities with 1050 colleges as against only 19 Universities at the time of independence. The number of University students likewise increased from about 400,000 to 1.0 million at the beginning of the Third Five Year Plan.[2] In short, though educational facilities improved considerably over the period of first two plans, but not quite in consonance with the needs of the development of the country. This is evident also from the very low rates of literacy of 24 per cent in 1961.

The whole picture of progress in the social sphere, especially with respect to the government measures adopted in this connection, can be judged from the following table depicting various social indicators:

1) C. Bettelheim, op. cit., p. 322.
2) Ibid, p. 323.

Social Indicators

	1951	1961
Literacy rate (per cent)	16.7	24.0
Birth Rate (per 1000)	41.7	41.1
Death Rate (per 1000)	40.0	22.8
Infant mortality rate (per 1000)	183.0	146.0
Life Expectancy at Birth (years)	32.1	41.2

Source: Pocket Book of Population Statistics, p. 96 and India, 1974.

The table shows a positive social change and improvement in both literacy rates and average life expectancy at birth. Death rate declined at a faster rate than the birth rate. There has also been a drastic fall in infant mortality rate. This indicates some positive, though slow, impact of public measures to improve public health and education.

Regional Imbalances:

In the last chapter we saw that the Planning Commission believed in a policy of balanced regional development and the reduction of inter-regional disparities in incomes and the levels of living. For this purpose, it evolved a formula of giving central assistance in accordance with the needs of a region, expressed in terms of the difference in per capita state outlays and its resources. In other words if a state needed greater development effort to come up with other states, but had less resources of her own, the centre, was to give it a comparatively larger assistance. Similarly, the centre was to encourage the development of public and private industries in the comparatively backward states and regions, provided those states had the necessary potential for such industries or projects. Though in a vast country with sub-continental dimensions, such as India's, it is not quite easy to bring about balanced regional development in a short span of only one decade, still a firm beginning could be made, so as to mitigate to the maximum possible extent, the regional disparities over a longer period. Let us see what was achieved towards this end during the period of the plans under review.

There are several and often conflicting criteria used by different people to show the extent of regional disparities. For instance, Dandekar and Rath used level of expenditure per capita to buy the nutritional minimum diet and how many people could afford it in a particular state and how many lived below it. In this way they also tried to find out how many states had a level of living below the national average.[1)] Some others like Vaidyanathan, Bardhan, Bhatty, etc. using similar criteria of basic minimum necessities of life reached different levels of minimum expenditure needed per head. Accordingly, some of the states which meet the test used by one of these authors often fail to come upto that used by others. Under the circumstances, it seems more appropriate to follow the criteria used by various government agencies, like the Central Statistical Organisation and the Finance Commission. Both of these, have made use of the per capita income to indicate the level of development in different states and the interstate variations in the levels of living. The following table gives per capita incomes at

1) V. M. Dandekar and N. Rath, op. cit., p. 11.

current prices of different states for the period of 15 years starting from 1949-50.

Per Capita Income at Current Prices

of Various States during 1949-50 to 1964-65

	1949-50	1960-61	1964-65
Andhra Pradesh		275	392
Assam	225	311	394
Bihar	147	211	286
Gujarat		362	488
Haryana		327	
Himachal Pradesh		359	396
Jamuu & Kashmir		297	390
Karnatka		285	382
Karala		265	362
Madbaya Pradesh		288	539
Manipur		194	298
Mahrashtra		400	526
Orissa	225	211	336
Puujab	365	374	555
Rajasthan		318	386
Tamil Nadu	255	335	410
Tripura		249	309
Uttar Pradesh	260	246	370
West Bengal	286	317	403

Source: Records and Statistics, Quarterly Bulletin of Eastern Economist, February 1974, vol. XX, No. 2, p. 102.

The table above clearly shows wide disparities in the levels of per capita income ranging from Rs 555 in Punjab, the highest, to 286 in Bihar, the lowest, with wide variations in between these two extremes. Secondly, though there has been a continuous increase in the per capita income in almost all the states, yet it has not been uniform. Some states have been growing at a faster rate than others, and for various reasons, including social, economic and natural. What is to be seen is that impact of planned efforts, has not been such as to reduce the disparities. In fact, in the case of the highest and the lowest per capita income states, these disparities have increased. So greater attention both at the state and the central levels is required for future policy action, towards narrowing down this disparity.

Having discussed the major aspects of the Indian economic performance in terms of broad objectives of the Five Year Plans, we turn now to an examination of the behaviour of prices and the balance of payments, and governmental action to deal with them.

Price Behaviour:

The price behaviour has important bearing on the attainment of the goals of economic growth and equality. A general and unexpected rise in the level of prices may have adverse effects on both savings and investment, and hence may create problems for sound planning and development. This may be especially true of the private sector, which tries to look for quick returns rather than to the long term development. So inflationary rise in prices may misdirect private investments in the production of the non-essential or less essential goods, rather than in that of the more important ones. Moreover, inflation has redistributive effects in favour of the producers and businessmen and against the consumers in general. For the public sector, inflation has more serious consequences, in the form of increased costs of the public sector undertakings and the projects, which in turn implies a heavier burden of taxation on the people,or alternatively,of going slow with the investment projects. In this way,inflation generally upsets and jeopardises the planned development of the economy.

Along with the above effect on planned development of the economy, rising prices also have an adverse effect on the exports and consequently on the balance of payment position of a country. With the rise in prices export prices also rise but foreign demand for them may decrease, and lead to a decline in export earnings. In this way, inflation may create serious balance of payments problems also.

Another aspect of the rising prices is their bearing on the level of living and on redistribution of incomes in favour of the rich and against the poor. The Indian plans have therefore been emphatic in bringing about development with stability. Let us see how far this objective has been realised in practice.

The First Plan period was a period of fluctuating price levels. The wholesale price index at the end of the First Plan, stood at about 22 per cent lower than in 1951. Before 1951, India experienced an inflationary situation because of the Korean war boom and the phenomena of world inflation. With the end of the Korean war and the anti-inflationary financial policy of the government, the prices started falling. The wholesale price index came down from 125.2 in March 1951 to 99.9 in March 1952. Thereafter the situation remained somewhat steady in so far as the wholesale price index is concerned, but the prices of the foodgrains fell sharply because of the bumper crop in 1953-54. At the end of the First Plan, the wholesale price index stood at 98.1.

The working class cost of living index was 103 in March 1951 (1949=100), but varied considerably from year to year after that. For example, in March 1955 it was 94 but started rising after that and reached 100 in March 1956, though on the whole the situation remained normal for the five year period. The working class cost of living index fell less than the wholesale price index because a disproportionate fall in the prices of foodgrains and other goods of everyday use, i.e. a greater fall in foodgrain prices than in those of cloth, matches, salt, shoes, wares, fuels, etc. Since the cost of living of the industrial workers includes most of these articles of daily consumption, and their prices fell not so drastically as those of foodgrains, so working class cost of living index fell comparatively less than the wholesale price index. There is another important aspect of this problem and that is, the supply of these articles being solely from domestic sources and without their adequate imports from abroad, their prices did not therefore fall so much.

The prices which had started rising since the second half of 1955 continued to rise further during the Second Plan period, and adversely affected the well being of the people. The index of wholesale prices went up by about 30 per cent, food articles as a group increased by about 27 per cent. The main reasons for this increase were uncertain supply position of the essential commodities, along with a rising pressure of demand for them. Aggregate demand had started rising in excess of real output growth, because of the growth of population and the increasing of the money supply and the money incomes of the people.

During the First Plan, as seen above also, the real national income increased by 18 per cent, while money supply increased by about 14.5 per cent. As against this, real national income increased by 21 per cent, while the money supply increased by about 33 per cent during the Second Plan. Again average increase in agricultural production during the period under review, was three per cent per year while that of foodgrains alone was about 2.8 per cent. Similarly, industrial production on the whole increased by about six per cent per year, while that of only the consumer goods was still higher on the average for this group of commodities. Now let us see how did this match with the growth in population and money incomes of the people. We have seen above that population grew at a faster rate during the decade 1951-1961 than in the previous decade. For instance, total population was about 36 crores in 1951, but increased to about 44 crores by 1961, a rise of nearly eight crores over this period or an average increase of about 2.25 per cent per annum. Expansion of money supply was quite fast during this period, as the table below shows:

Money Supply with the Public

(Rs Thousand Million)

	Currency	Deposits	Total
End of 1950	11.9	6.0	17.9
End of 1955	13.9	6.6	20.5
End of 1961	19.8	8.9	28.7

Source: C. Bettelheim, op. cit., p. 286.

Total supply of money including both currency and deposits increased at a faster rate after 1951,because of increased government expenditure and deficit financing. So with increased population,along with increased money supply and money incomes, aggregate demand was bound to rise. This rise being faster than the increase in physical or real output,led to rise in prices which became inflationary with the passage of time.

The working class cost of living index,which stood at 100 in 1956,started rising thereafter and reached 124 by the end of the Second Plan. This rise was mainly because of increase in the foodgrain prices, resulting from seasonal and regional variations in supplies. These were further aggravated by speculative hoardings by the traders and wholesalers. It follows therefore, that the level of living and well being of the people was adversely affected by the rising cost of living during the Second Plan Period.

The question that arises then is, what were some of the redistributional effects and implications of this inflationary rise in prices? In so far as the prices of agricultural goods are concerned, the consumers with fixed incomes lose because their incomes do not rise in the same proportion as do the prices. The farmers also do not gain from this inflation, because of their low waiting power and lack of storing or warehousing facilities, which compel them to sell their crops soon after harvesting at very low prices. It is the middlemen, the speculators and the hoarders, who gain the most out of rising prices of the agricultural products. In the case of manufactured goods, it is both the producers and the middlemen (who are also big businessmen) gain at the cost of the poor consumers, especially those belonging to the fixed income groups. In short, inflation not only reduces the incomes and consumption of a vast majority of poor people, but also breeds greater inequality in income distribution. These poor people bear most of the burden of economic growth, for whom it is meant otherwise to bring a better standard of living. A slowly rising level of prices can of course be justified, on grounds of both growth and equity, but essentially not a fastly increasing one.

What steps were adopted by the government to check inflation? Besides the measures adopted by the government to increase real national income, including the production in both agriculture and industry, the government adopted some additional measure to control prices, but without much success. First, important measure was to curb hoarding by putting restriction on holding of stocks by the traders and merchants. The government also through the Reserve Bank of India, imposed selective credit controls to check speculative tendencies. The most important, and comparatively more successful measures, were the introduction of a centralised system of distribution of foodgrains and other essential commodities, through a network of fair price shops in the country on rationing basis (i.e. fixed quantity per head). With little control on production but organised system of distribution only, the government could not hold the price line and check the inflationary rise in prices. This problem remains to some extent unsolved to date, and begs a more systematic and better solution.

Foreign Economic Relations:

Next we may take up the question of India's foreign economic relations. In the last chapter, we acquainted ourselves with the broad steps taken by the government to promote exports and to cut down on imports, so as to deal adequately with the question of balance of payments. We turn now to the question of foreign exchange and foreign aid, in some further detail.

During the period of First Plan, India's trade balance, as seen above also, had started becoming adverse, even though she had a surplus on current account and a deficit in trade balance. This deficit was adequately covered by withdrawls from Sterling balances, which she had inherited from the past. Besides, because of the modest demand for imports during the First Plan, the deficits did not pose any serious problem. But from the very beginning of the period of the Second Plan, there was a great increase in imports. This was because of increased imports of both the consumer goods and the capital goods. Imports in the first two years, i.e. 1956 and 1957 were so substantial that they led to the virtual depletion of foreign exchange reserves. This situation called for strict regulation of foreign exchange and imposition of some drastic controls on imports by the government. The crises in the foreign exchange position continued for the rest of the Second Plan period,and in fact upto the devaluation of the Rupee in June 1966.

On the exports side, there was a decline in exports because of somewhat dismal position on the agricultural front. Instead large scale imports of foodgrains had to be made from abroad to meet the ever growing demand for them. Moreover, the planners had seen little prospects for increasing the exports of the traditional goods and so did nothing to promote them, even though there could have been some possibilities of doing so through appropriate incentives and other such measures. The magnitude of the problem can be understood from the data given in the following table:

Plan Resources (Actual)

(Rs crores at Current Prices)

	First Plan	Second Plan
Total Domestic Resources	1771	3623
Loans and Grants from Abroad (net) including PL 480 Aid	189	1049
Total Resources (1 + 2)	1960	4672
Total Investments both Public & Private	3360	6750
Item 2 as % Age of item 4	5.6	15.1

Source: P. Chandhary, Aspects of Indian Economic Development, 1971, p. 62.

It can be seen from the above table that the share of foreign resources, including direct business investments, in the total investment rose considerably (as seen partially in the previous chapter also in our discussion of the Resources for the Second Plan and also direct business investments). The foregin resources as a percentage of total investments shot up from about 5.6 per cent in the First Plan to about 15.1 per cent during the Second Plan. If debt repayments are added to these figures, then the extent of dependence of the economy on foreign aid becomes still more serious.

There are some problems connected with foreign assistance about which the above figures do not speak anything. The most important of these, is that foreign aid has its costs and so cannot be a substitute for free foreign exchange earned through exports. The real value of foreign aid depends on the nature and type of aid, i.e tied or untied, and the relative prices in the donor country and in the world market. Transfer of net resources depends also on other factors like terms of repayment including interest rates, period of repayment and requirements of currency for repayment, etc.

Most of the aid which India could get from abroad was tied aid. This aid had to be used for the purchase of goods for specified projects (Project tied) or from specified sources or countries (source tied). Only a small part has been in the form of grants which could be freely used. The pre-dominance of tied aid can be seen from the table below.

Untied Aid and Grants in Foreign Aid

(Rs Crores)

	Untied Credits	% Age of Total Assistance	Grants Excluding PL 480	Percentage of Total Assistance
First Plan	53.2	16.7	110.6	34.8
Second Plan	516.0	22.9	253.3	11.2

Source: Economic Survey, 1974-75, p. 110.

The greater percentage of tied aid, had two important implications. In the first place,it involved higher than the normal cost of aid because India had to pay more than the world prices for the goods in the donor countries. Had the aid not been source tied, the purchase of goods in the third countries at world prices would have reduced the costs considerably. Secondly, tied aid also placed some compulsions on the planners to use it for certain projects only, whether they wanted it or not. This in a way gave little choice for free and full use of the available aid.

The conditions attached to the foreign aid, have also been somewhat stringent. For example, I.B.R.D. gave loans for railways, power stations, ports, etc. on a high rate of interest of about 5.75 per cent for periods ranging between only 10 to 20 years. As against this, its subsidiary organisation (IDA) International Development Authority gave loans on much favourable terms and conditions, i.e, at about 0.75 per cent with repayment over 50 years, or so.[1]

Similarly, U.S.A. has been lending on very strict conditions. For example, Import Export Bank gave loans at an interest rate of 5.75 per cent for a 15 year term and a permissible delay of five years. Other U.S. loans have also not been less than three per cent for a maximum period of 20 years.[2] As against this, loans from the socialist countries have been on much softer conditions. For example, loans from Soviet Union, Romania, Czechoslavakia, etc. have been accorded at 2.5 per cent and are repayable in rupees. Loans from other countries like West Germany, Great Britain, Japan, Canada (to a limited extent) have been slightly less stringent than those from U.S.A., but comparatively on more costly terms than from socialist countries. This is so, because their interests rates varied between 5-6 per cent for a term of 20-25 years.

1) C. Bettelheim, <u>op. cit.</u>, p. 290.
2) Loc. cit.

Deliveries of wheat, pulp, non-ferrous metals and fertilizers from Canada, have of course been on much easier terms as they could be paid for in rupees. Same has of course been true of U.S. P.L. 480, loans and grants.

Next important aspect of external assistance is its full utilization. With the help of the following table, we may examine the position concerning the amounts of authorised aid and the extent to which it could be utilized.

Aid Authorised and Utilized

(Rs crores at Pre-devaluation rate of exchange)

Type	End of First Plan	End of Second Plan
Authorised Aid	381.8	2540.0
Utilized Aid	201.7	1430.2

S :rce: P. Chandhary, op. cit., p. 64.

The gap has been much larger during the Second Plan than under the First Plan. Now the question arises, why this gap has been there? The official explanation for it has been that aid is given in certain forms only, and so it remained non-utilized. But the critics on the other hand, put the blame on the government for its excessive reliance on exchange controls and industrial licencing, which caused unnecessary delays in the utilization of aid. This question needs further examination with reference to the various forms of aid and free foreign exchange available.

The bulk of the aid that remained unutilized had been the project aid. This is because of the fact that there were delays in project selection and there never was a ready list of viable projects to choose from. On the other hand,it was considered dangerous to undertake projects in haste which could turn out to be ill-conceived. At the most what could have been possible was to cut short the administrative delays in the decision making process.

In the case of imports of foodgrains and some of the industrial inputs, the problem had just been the reverse. There was in fact the need for ensuring an adequate flow of foreign exchange to maintain the supply of industrial inputs for full use of the productive capacity. This shortage was experienced because of the preference of donors for project aid. The exchange controls and licencing procedures,which were the off-spring of difficult foreign exchange situation, in due course became cumbersome and did create some difficultires in the way of important imports.

Another negative aspect of the foreign aid,had been high costs of such aid to the recipient country, as partly referred to above also. In the first place, the country or source tied aid imposes a burden in terms of higher prices in the donor country than those in the world market. Secondly, there are heavy costs in terms of servicing of the existing debts, which has to be in hard currency. This makes the burden of debt servicing even greater. Cost of tying the aid,has roughly been estimated to be about 10 per cent of total aid received.[1)]

Imports of wheat and some other agricultural commodities under U.S. P.L. 480 programme,also imposed some costs on the Indian economy.

1) P. Chandhary, op. cit., p. 66.

In the first place, there has been a condition of such imports that these will be made in the U.S. ships and their freights will be defrayed in U.S. currency. The U.S. freights are higher than the world rates, so both these conditions imposed a cost which normally is not considered to be so, because of the rupee payment for wheat, etc. Secondly, there have also been some indirect costs of the imports under P.L. 480. For instance, the government did not make any serious efforts to tackle the problem of agricultural development and food production at home, because of the easy availability of food grains from abroad. So agriculture remained a weak spot in the Indian economy. In short, the Indian experience regarding external assistance has not been quite happy because of the heavy costs imposed by it. It has not been a good substitute for free foreign exchange, that could be earned through increased exports to cover up the domestic resource gap.

To sum up,our discussion of the development performance, we can say that the Indian economy did present a picture of overall progress during ıe first decade of her experiment with Planning. This is evident from the growth of national and per capita income, savings and investment, agricultural and industrial production, etc. All these indicators point towards the achievements which seemed quite satisfactory, when compared with the pre-plan performance of the Indian economy. However, in terms of the objectives of a more equal distribution of income and wealth and a reduction of regional disparities, the plans failed to reduce these, on the contrary these actually increased. Similarly, the plans could not find a satisfactory solution for the problems of unemployment and underemployment,and the provision of social services on the required scale.

Export prospects did not improve,and as a consequence,the dependence of the Indian economy on foreign aid further increased. This was because of an excessive stress on the development of a large number of heavy industries during the short period of the Second Plan itself. As these industries were capital intensive,and the capital for them had to be imported from abroad, an excessive stress on them led to the creation of foreign exchange crises. Similarly,large governmental expenditure and deficit financing,led to inflationary tendencies which created further hardships for the economy and especially for the poor people.

In short, the first two Five Year Plans were remarkably successful in some areas, but in others, they failed quite badly.

CHAPTER 5

Peformance in Terms of the Socialist Pattern of Society

We have discussed so far, the achievements and the failures of the first two Five Year Plans, mainly in terms of their broad objectives. We may proceed now to find out how much these plans led the Indian economy in her march towards the socialist pattern. In order to do that, we may recapitulate the definition of the socialist pattern of society, adopted by the government and declared through its various documents. The second Five Year Plan, as noted in Chapter 2 above, stated that, "Benefits of economic development must accrue more and more to the relatively less privileged classes of society and there should be a progressive reduction of concentration of income, wealth and economic power." The Industrial Policy Resolution of 1956 further clarified that "The adoption of socialist pattern of society as a national objective as well as the need for planned and rapid development require that all industries of basic and strategic importance or in the nature of public utility services should be in the public sector."

The above statements stress economic development with social justice. In other words, the larger gains of economic development should go to the less privileged classes of people. Besides social justice, it also demanded a progressive reduction of income and wealth disparities as also of economic power. As the government never envisaged a complete nationalization of the means of production, and an instantaneous creation of a socialist society, it therefore laid stress on a gradual transformation or the so called democratic process of change. For this purpose, it listed a number of steps or measures, the most important among these were as follows:

1. Abolition of Zamindari tenures and bringing about other land reforms, to reduce concentration of land ownership in the hands of a few landlords.
2. Programmes for village uplift through community development, national extension service and cooperatives.
3. Progressive taxation of income and wealth.
4. Measures to improve the social status of the backward classes.
5. Expansion of the public sector and regulation of the private sector.
6. Measures to promote small scale and village industries.
7. Countervailing power of labour.

We may examine at some length, as to how far have these measures been implemented and with what results. We start our study with an examination of the developments in the rural sector, and after dealing with it,shall pass on to the case of the urban sector followed by a brief description of other developments leading towards the socialist pattern.

Rural Economy:

1. Land Reforms:

The All India Congress Committee (AICC) passed the first text on economic and social reform in November 1947, which contained this decision, "The land with its resources and all the means of production as well as the means of distribution and exchange should belong to the community and be administered in its own interest."[1] A similar decision was taken by the Economic Programme Committee in January 1948 and which read:

> "All intermediaries between the tiller and the state should be eliminated and all middlemen should be replaced by non-profit making agencies such as cooperatives. Land should be held for use and as a source of employment. The use of lands of those who are either non-cultivating landholders or otherwise unable for any period to exercise the right of cultivating them must come to vest in the village co-operative community..."[2]

So one of the first aims of the land reforms was to eliminate the middlemen, where they existed. It is no doubt true that suitable legislation had been passed in almost all the states to eradicate the intermediaries. But these were reforms only in theory,because the conditions of the peasantry did not improve much. This is so because the main beneficiaries of these reforms were the tenants who already had the occupancy rights, and not those responsible for the cultivation of the land. Some other effects of this legislation were:

1. It has not suppressed big landed property.
2. The legislation gave the richer peasants an opportunity to become landed proprietors and capitalist farmers.
3. It has increased the security of the agriculturists more than they had under the previous system.

1) Quoted by H.D. Malaviya in Land Reforms in India, New Delhi, 1955, p. 79.
2) Ibid, p. 80.

These three factors have to a great extent favoured the expansion of capitalist farming rather than small scale farming. Moreover, elimination of intermediaries has been there only in theory, because the former hierarchy of these intermediaries has in practice not been disintegrated. The Zamindars have in general retained immense properties not just what might be considered as truly under 'personal cultivation', but also through 'benami' or fictitous transfers of lands in the name of their relatives in the official records.

The agrarian legislation therefore, benefited only the tenants-in-chief who already had stable rights and who formed part of the upper class of the rural population. This class generally does not take part in the agricultural work, and is slowly becoming rural capitalist class. This is so because it employs hired labour for the cultivation of land and the agricultural production. Besides, this class is extending its sphere of activities to include trade in the agricultural commodities and also money lending to some extent. In this way, we find the emergence of a rural capitalist class, somewhat similar to the one that exists in the industrial production, trade and commerce in the urban areas.

The new legislation has not done much for the peasant-workers, share croppers or the tenants at will. A large proportion of the total area under cultivation still remains under tenancy and the rents are generally much higher than the legally stipulated ceilings. Land legislation has in fact, in many parts of the country, promoted informal and oppressive crop sharing arrangements. The high pressure of population on land makes it possible for landowners to impose such arrangements on the landless agricultural population. The Sociology of rural areas and the balance of political forces and power in the country-side, make it difficult for the landless workers to secure the rights which they are entitled to by the letter of the law. The various reforms, therefore, have harmed and not benefited the share croppers or the landless workers.

To remedy this situation, the planning commission impressed on the state governments to enact 'ceilings' legislation so as to limit the size of land holdings. The limit though varies from state to state, it was put at a maximum of 50 acres. Very little progress was achieved in this respect under the First Plan. The planning commission repeated its recommendation in the Second and the Third Plans, but the results achieved were not quite satisfactory. This is what the commission for agriarian reform in the Punjab state reported. Following were some of the important findings of the commission:[1)]

1. Fixing of 30 acre ceiling on personal holdings has freed only 411,843 acres of 'surplus land', i.e. two per cent of the land under cultivation in the Punjab state. Only three per cent of land owners were affected.

2. The tenants who received grants of land had to pay indemnities.

3. Only 25 per cent of 'surplus land' was effectively distributed and this excluded most of the tenants because they failed to fulfill the conditions laid down for the purpose.

4. Much of the land above the imposed ceiling had been transferred in one way or another to the owner's relatives or friends.

1) Quoted in C. Bettelheim, op. cit., p. 193.

5. The cost to the Punjab government of carrying through the reform was greater than the value of the surplus land acquired.

The situation in other Indian states has been somewhat similar. Though these ceiling laws have not been so effective, they have at least generated a new process, and that is a decline in the craze for buying and selling of land. Investments and financial resources are instead being used for improvements on land and the purchase of agricultural machinery and other inputs. Holdings well equipped with machinery and employing hired labour have become more numerous.1) This tendency also points towards the emergence of an agricultural capitalist class.

It follows from the above study that, land legislation failed to establish a socialist pattern in agriculture, as it could not make any substantial dent or impression on the rural society. Instead as we saw in the previous chapter, the disparity in the distribution of income and wealth widened with the coming of the new legislation. Moreover, the social problems of caste, massive underemployment and unemployment, plague the rural economy more now, than they did before. Without some drastic changes in the rural structure of the country, there seems to be no other solution to these massive problems. The other efforts made by the government in respect of provision of facilities, like community development, national extension service, creation of a network of rural cooperatives, irrigation facilities, have no doubt helped in increasing agricultural production to a great extent, but they have had a little impact on the social fabric of the rural society.

1) Ibid, p. 194.

About 40 per cent of the rural population are still living below the poverty line, and about one fourth of the rural households having no land at all, thus point to the fact that the efforts to ensure social justice and give the increased share of economic progress to the less privileged classes have been a miserable failure.

Caste System:

The caste system in rural India prevails even today inspite of the legislation enacted by the government to abolish it. Caste system, is generally understood to mean the division of the society into various classes, with little mobility between them. For example, the high caste Hindus or Brahmins would never permit their sons and daughters to get married in the low-caste, 'Harijan' or scheduled caste families. Besides, there are other social implications of this. For instance, there is segregation of temples, places of communal functions and gatherings, etc. Economic implication of the caste sytem has been that a person's caste would generally determine also his occupation. In this way it puts serious obstacles in the way of social and professional mobility. The social set up based on the caste system, allocates occupation almost on the basis of heredity. For instance, a sweeper's son will normally become a sweeper or accept another job which the people of only his caste can do. This has been one main reason for the people of lower classes in the rural society to work at the most as wage labourers on farms, rather than having the opportunity of becoming land-owners. The governmental measures to allot surplus land to the 'Harijans' and others from lower castes, have been resisted very strongly by the big landlords, who proclaim themselves to belong to superior classes with a superior blood, and so to be the real owners of land.

On the national plane, this system takes the shape of various religious groups or communities, e.g. Sikhs, Muslims, Jains, Parsis, Hindus, Bhudhists, etc. or geographical groups like Gujratis, Marwaris, Madrasis, Bengalis, etc. Similarly there has been a hierarchy among the different tribal groups, like Raj Gonds, Kolans, Pardhans, etc. The ideology behind the caste system not only breeds inequality both social and economic, it often leads also to serious political consequences like communal riots, language difficulties, parochial feelings and loyalties, etc. These may exist in some other countries also to some extent, but they are more intense and deeply entrenched in India. Local elections for 'Panchayats' (local government in the villages) or municipal boards, or municipal committees, are often fought by the members of different groups or castes, on the basis of their communities and the number of people in them. In this way, caste solidarity to them is more important than the merit of a political party or of the individuals contesting the elections.

These in short are some of the demerits of the caste system in rural India, which prevails also in the urban areas to some extent. Government measures in the form of equality before law, abolition of 'untouchability', safeguards for scheduled castes and scheduled tribes, and improvement in the status of women in society have met with only a partial success. Village society still remains to a great extent the same traditional society as it used to be at the time of independence or even before it. The influence of caste, and religion is still very powerful, as is proved by the frequent clashes and conflicts between the people of various groups and castes. It does not seem to fade in the near future. It follows, therefore that the social impact of the Socialist Pattern has not been so significant in so far as the hierarchy of the caste system is concerned.

2. Measures for Community Development:

A massive community development programme, covering about 400 million of rural population was launched in October 1952, with a view to ameliorate the conditions of the rural poor. Its main aims were:

1. To promote all-round development of the village community.
2. To instil a spirit of community life among the people.
3. To develop self-reliance among them, so that they could manage their affairs themselves.

The programme laid special stress on changing the outlook and attitudes of the people so that the above objectives could be effectively realised. To realise the first objective, a wide range of activities were to be undertaken to revitalise the rural economy. These included, horticulture, animal husbandary, fisheries, transport and communications, village and cottage industries, etc. The second and third objectives were to be realised through development of the human aspects and so included programmes of education, health, cultural activities, eradication of caste system, family planning, etc. All these programmes taken together were expected to create conditions for the material and social advancement of the rural masses, and thus strengthen the foundations of a socialist state.

Total outlay on community development during the first two plans was about Rs 240 crores. The community development programmes covered almost the entire rural area, through as many as 5238 development blocks. Of these 18 blocks were in the pre-extension stage, 2709 were in stage I and 2511 in stage II. These blocks served 5.76 lakh villages and about 40.46 crore people. A detailed idea about the community development activities can be had from the data supplied below:

Community Development Activities

1959-60-1963-64

	1959-60	1963-64	Percentage Increase
Agriculture			
Improved seeds distributed (Lakh Maunds) (1 maund = 37 kg.)	70	96	22.8
Chemical fertilizers distributed (Lakh Maunds)	138	493	257.2
Improved implements distributed (Nos)	281,110	738,963	163.0
Animal Husbandary			
Improved animals supplied (nos)	17,997	34,124	89.4
Animals castrated (Nos)	2,202,500	3,188,000	45.2
Rural Health and Sanitation			
Drinking water wells constricted (Nos)	35,470	42,711	20.3

(table continued on next page)

	1959-60	1963-64	Percentage Increase
Social Education			
Adults made literate (Nos)	118,028	828,488	601.8
Communications			
Unmettaled Roads built (Miles)	13,405	25,483	90.3
Village and Small Industries			
Brick klins started (Nos)	10,892	18,885	73.4
sewing machines distributed (Nos)	2,022	9,394	370.0

Source: India, 1965, p. 184 and Community Development at a Glance, p. 881.

The figures show both the rate of expansion and the extent of the development under community development programmes in the rural areas, over the First, the Second, and to some extent, under the Third Plan also. Besides, the above improvements, most of the farmers in the block areas started using insecticides, fungicides and a large variety of high yielding seeds and various types of fertilizers.

There have been some definite signs of change in the attitudes of the farmers, especially of those covered by the development blocks. For instance, various studies reveal that farmers covered under blocks, not only tried to increase their incomes but also cut their expenses on social ceremonies, and were more conscious about family planning, etc. People of these areas have also showed greater appreciation of the advantages of education or their children, besides having a positive motivation for planned families.

The community development movement has in short been a positive step towards an all round development of the rural areas including improvements in agricultural practices. It has also been instrumental in changing the outlook and attitudes of the people towards economic progress. This has also had a good effect on the expansion of employment opportunities in these areas. Any precise assessment of the benefits of the community development programmes, more so in exact quantitative terms is just not possible, because of the wide variety of the activities covered under it. What one can gather from the data examined above and from the various studies conducted from time to time, especially those by the official agencies like Planning Commission, Reserve Bank of India, National Sample Suvery, and others, is the fact that the conditions which were static in general have started moving now, and this movement is surely for the better and in the proper direction. But it will take sometime before the far-reaching changes in the rural structure, rural attitudes and rural life are brought about. A good beginning does provide the hope for a better future.

Agricultural Cooperatives

As in the field of community development, the government tried to expand the facilities for the farmers through a network of rural credit cooperatives. Through this organisation, the government wanted the farmers to get rid of the indigenous money lenders and merchants, who had been exploiting the rural masses for centuries. The government encouraged the agriculturalists to organise the various types of cooperatives to tide over their problems regarding finance, purchase of fertilizers and other agricultural inputs, and the sale of their produce at reasonable prices.

The cooperative movement developed at a fast speed after independence. For instance, there were about 105,000 agricultural credit societies in 1951, their number increased to 160,000 by the end of the First Plan and to 212,000 by the end of the Second Plan. These societies had a total membership of eight million in 1955-56, which rose to 17 million by 1961. In 1951, their total loans and advances were Rs 229 million but increased to Rs 502 million by 1955-56 and further to Rs 2,000 million by 1961.[1] The agricultural credit societies have been more popular in some states like Bombay, Madras, etc. than in others. Marketing and distribution cooperative have been comparatively less numerous, though equally active and efficient. These have largely been formed in states like Bombay, Madras, Andhra Pradesh, Punjab, Biher, etc.

The cooperative movement though not equally strong and successful in the whole country does offer a promise for solving some of the acute problems of the rural masses.

<u>Urban Economy</u>:

We may take next the case of the urban economy of India and study the impact of the Socialist Pattern on it. The growth of urban sector increased at a rapid pace after independence as the existing cities grew in size and some new ones started coming up. According to the

1) C. Bettelheim, <u>op. cit.</u>, p. 196.

first census after independence, i.e. 1951, urban population reached about 62 million people, which was about 17 per cent of the total population. Then by 1961, it reached about 79 million (18 per cent of total), an increase of about 17 million in the space of about 10 years. Nearly 55 per cent of the working population (urban), consisted of workers mainly the wage earners. The second largest group consisted of the people who are self employed and work for their own profit, without employing hired labour. They constituted roughly one third (32 per cent) of the urban working population. The employers in industry and business (this includes managers also), constituted abour one per cent of the working population. The remaining portion of the working population consisted of non-paid domestic workers or under paid wage workers working on piece wage basis and those without work.[1)]

The figures given above indicate that a greater proportion of the Indian urban labour force consists of wage-earners. If we take the case of the big cities like Calcutta, Bombay, Delhi, Madras, etc., we find their percentage rising upto even 75 per cent. Two thirds of the working class (wage workers) is approximately found in manufacturing industry, mining, construction, transport and communication, and gas and electrical industries. Despite the relative weakness of the industrialisation in India, its urban work force consists mainly of the industrial wage earners.

Industrial wages remained somewhat stable during the period 1950 to 1961. The average annual earning no doubt rose from Rs 967 to Rs 1524 during this period, i.e. by about 58 per cent but the cost of

1) Ibid, p. 330.

living also went up by almost the same proportion. The official figures put the rise in the cost of living of the working class families at about 59 per cent[1], but workers organisations and the trade unions put the rise at a much higher percentage. Even if we accept the official estimates, it would mean that there was virtually no increase in the real earnings of the working class.

The 15th Indian Conference on labour held in 1963 demanded a minimum need-based wage, for a family of three persons, including the expenses on food, clothing and rent, etc. of Rs 125 per month at the 1958 prices. The actual earnings on the other hand amounted to about Rs 107 per month at the 1958 prices. This means that workers were not paid enough to meet even their basic necessities of life. Another important aspect of this problem is that wages were not linked with productivity. Whatever increase labour could get, was not due to the spontaneous decision of the employers, instead it came through strike action of the trade unions.

The development of the public sector is expected to contribute directly to raising the workers' standard of living. Public sector undertakings and enterprises, paid wages which were higher than those paid by the private sector. The workers right to form trade unions, and carry on collective bargaining were duly recognised by the public authorities. The public sector also provides a greater security of employment than does the private sector.

The urban middle classes cannot be easily defined for various reasons, the important ones among these, being the nature of their work and

1) Ibid, p. 331.

the incomes they get. We may for reasons of simplicity classify the middle classes into two distinct social groups. The first consists of the non-industrial wage earners, and the second one of those who sell goods and services for a profit rather than their working ability in exchange for a wage. The first category of non-industrial wage earners, includes the professional groups like, civil servants, commercial employees, bank and insurance employees, office workers in the industrial sector, mines, transport, those employed by the private or the state educational system, health and medical service employees, those working for business agencies, for lawyers, for the press, and for postal services, etc.

The total strength of these professional groups has been about five per cent of the total Indian labour force in 1950-51. This proportion remained almost the same upto the end of the 50's, with only marginal changes here and there. Looking from another angle, they formed about one fifth of the non-agricultural labour force in the towns.[1] These non-agricultural/non-industrial wage earners, are grouped mainly in the big cities and the towns. The educated and the intellectuals among these groups, have a strong influence on the ideology and in shaping the actions and aspirations of the urban people. Moreover, they form the most cultured sections of society.

The second category of these middle classes, consists mainly of the people like small traders and shopkeepers, small industrialists and craftsmen employing a small number of workers and lastly, independent workers like, doctors, lawyers, etc. Taken together, they formed between 1.5 to 2 per cent of the total labour force and about five per

1) Ibid, p. 90.

cent of the non-agricultural work force. This means that the two categories of the middle classes are almost evenly balanced.

With regard to the incomes and the levels of living of these middle classes, it is difficult to get the reliable statistics because they include a wide variety of people. For this very reason we can offer only broad observations in this respect.

1. Firstly, the conditions of the middle classes did not improve over the period between 1950-61. Instead, there seems to have been some deterioration in the same, because of the rise in the prices and the cost of living. In fact, the people with fixed income whether in government service or in private employment were among the worst affected.

2. The commercial and small industrial groups benefited, on the other hand because of the expansion of the urban economy and demand and secondly, also because of the rise in labour productivity and higher sale prices. Consequently, their profit incomes increased faster than their cost of living.

3. Besides the increase in their incomes, the number of small industrialists, craftsmen and owners of commercial enterprises increased over this period. Though socially they did not change much, economically, they advanced faster in comparison with the other category of the middle class people.

It follows from the above observations, that the middle classes with fixed incomes gained very little from the process of economic development, if at all, while those with business incomes were largely the beneficieries of economic development that took place during this period. The latter may therefore be said to constitute the upper portion of the middle classes, though culturally they did not advance much.

The urban upper classes had perhaps been the main gainers from the growth process. It is not quite easy to place various categories of people with both earned and unearned incomes, in the category of Indian upper classes. There seems to be only one way to classify them as such, and that is on the basis on their taxable incomes. All those people in the urban areas whose taxable income exceeds Rs 20,000, may be said to belong to the upper classes or the richest section of the society. Defined this way, the upper classes should include the big capitalists, business-magnates , armed forces officers, and administrative services personnel, ministers and other politicians, etc. These upper classes may also be put under two separate categories, those with comparatively fixed incomes, and secondly, those with variable incomes from business profits and rents, etc. Taken together, these two categories in the upper class formed roughly one per cent of the total population in the urban sector. Further, if we include in this, the big landlords and capitalist farmers (they do not pay income tax), who own more than 75 acres of cultivable land per family, then the total percentage of the Indian upper classes would become about two per cent of the total population.[1)]

The available data suggest that while the nominal incomes of the salaried people increased by about 70 per cent during this period,

1) C. Bettelheim, op. cit., p. 55.

the profits increased at an average rate of about 12.5 per cent per annum during the same period.[1] This is true also of the foreigners' incomes derived from profits on the foreign investments in India. There were without doubt increases in unearned incomes from rents, interest, etc. but we cannot hazard a guess about them, because of lack of the relevant statistics. We can say of course that the increase in the national income benefited the richer classes the most. The social inequalities, which were meant to be decreased under the declared policy of the socialist pattern, widened instead. In the last chapter, we have had a glimpse of the distribution of income and wealth, in both the rural and the urban sectors of India. Our conclusion there too was that income and wealth disparity increased over the plans, and there were definite tendencies towards the concentration of economic power. The workers, both industrial and agricultural, along with the other weaker sections of society benefited the least. The position of lower middle classes deteriorated, while that of the upper middle classes improved considerably.

3. Taxation Measures:

Indian tax structure was made somewhat deeper and broad based, both to reduce inequalities and increase revenues for the development needs of the economy. For this purpose, rates of the existing taxes were increased and some new taxes, like wealth tax, gift tax, sur tax, capital gains tax, estate duty, etc. were levied. Consequently, the incidence of tax on both personal and corporate incomes increased. This can be seen from the table given below.

1) Ibid, p. 332.

Corporate and Other Income Taxes

(Rs Crores) 1952-53 - 1960-61 (1955-56 = 100)

Year	Corporation Tax	Index No.	Other Income Tax	Index No.
1955-56	37	100.0	143	100.0
1956-57	51	137.8	163	114.0
1957-58	56	151.3	184	128.7
1958-59	54	146.0	197	137.7
1959-60	107	289.2	177	123.8
1960-61	111	300.0	193	135.0

Source: Estimates of National Income, 1948-49 - 1962-63, p. 11.

The Indian tax rates on personal incomes have been very progressive, because their marginal rate ranged up to 65 per cent on incomes over Rs 70,000. The rate was heavier still on the unearned incomes and the corporate incomes. For example, an unmarried individual having an unearned income of about Rs 1 Lakh (Rs 100,000) paid about Rs 58,000 as income tax and retained Rs 42,000 only. The tax rates have been quite high both on individuals and on corporations, and so their net effect in raising revenues was considerable as can be seen in the table above. But in so far as the reduction in inequality is concerned, it did not have much impact, because of the small percentage of people covered under the tax net. Existence of a large number of tax concessions, rebates, and loopholes also led to a decrease in the total effect. Hence only marginal changes could be made in so far as income inequality is concerned.

4. Measures to Improve Social Status of the Backward Classes:

The backward classes consist of scheduled castes, scheduled tribes, and denotified tribes. According to the 1961 census of India, the total population of the scheduled castes was 64.5 million and that of the scheduled tribes was 29.9 million. The population of denotified tribes was about four million at the end of the First Plan. The Second and the subsequent plans do not give separate figures of denotified tribes and in fact, include the same in that of the scheduled tribes.

These classes have long since been the weaker sections of the Indian society and suffered from social and economic disabilities. The Indian constitution, therefore, abolished untouchability and guaranteed all sorts of equality for the people of these classes. Further, the state took the responsibility of promoting their welfare through measures like free education, reservation of seats in both government and private employment, as also in the Parliament. A large number of other concessions like relaxation of age, qualifications, experience, have also been given to them. Liberal financial grants were also made to promote the well being of the people of these classes. Lastly, the Criminal Tribes Act passed in 1924 was repealed after independence, so as to facilitate the rehabilitation and assimilation of denotified tribes into the wider community. The Five Year Plans specially took care to allocate funds for the welfare programmes of these people. We can see this from the table below:

Outlay on Welfare of Backward Classes

(Rs crores)

Head	First Plan	Second Plan	Per Cent Increase
Scheduled tribes	19.83	47.00	137.0
Scheduled castes	7.08	27.50	288.4
Denotified tribes	1.10	4.00	263.6
Other backward classes	2.03	9.70	377.8
Total	30.4	88.20	193.6

Source: Second Plan, p. 588 and Third Plan, p. 701.

The programmes for the welfare of these scheduled castes and tribes include, provision of fertile and irrigated land, soil conservation, land reclamation and development, minor irrigation, supply of improved seeds, manure, implements and bullocks, demonstration of improved practices, etc. Similarily,forest cooperatives are being organised for the proper exploitation of the forest wealth.

The people of these castes and tribes,are also being helped to pay off their long standing debts. Some traditional industries are being reorganised to expand the employment opportunities for them. Some of the important cottage and small industries being so encouraged are, bee-keeping, basket making, sericulture, spinning and weaving, fruit preservation, palm gur making, etc. Besides, the community development programmes and rural works programmes are also working in this direction. Cooperative societies are also being set up to help establish the small scale and cottage industries and to facilitate the sale of their products.

Education, a vital need of the backward communities, is also being rapidly expanded. The educational facilities being provided to the people of these classes include, settingup of the schools (multi-purpose), free distribution of books and stationery and other equipment, as also financial help in the form of stipends, scholarships, etc. Total expenditure incurred in the form of financial assistance to all the backward communities increased from Rs 15.41 Lakhs in 1951-52 to Rs 150.43 Lakhs in 1955-56, and reached Rs 286.56 Lakhs in 1961-62. A detailed position can be seen in the table below:

Financial Assistance to Scheduled Castes
Scheduled Tribes and Other Backward Classes,
1951-52 to 1961-62 (Rs Lakhs)

Year	Scheduled Castes	Scheduled Tribes	Other Backward Classes	Total
1951-52	8.18	2.82	4.41	15.41
1955-56	63.78	13.05	73.70	150.53
1956-57	87.99	15.78	83.52	187.29
1960-61	143.85	23.89	90.08	257.82
1961-62	167.91	30.95	87.70	286.56

Source: India, 1962, p. 134.

In deserving cases, the financial assistance includes, free clothing, midday meals, and free tuition, right up to the University level. Special emphasis is also placed on the technical and vocational education and training, so that people may find opportunity of self employment. Moreover financial subsidies are also accorded the persons wishing to start their own trades and industries.

Tribal areas in particular, have been deficient in medical services. They have often been infested with ailments like malaria, scabies, venereal diseases (V.D.), leprosy, tuberculosis, etc. To help them rid of these diseases, over 3,000 dispensaries were set up over the period under review.[1)]

It is not easy to make a correct estimate of the amount of progress and the impact of the measures undertaken by the government, because of the vastness and very complicated nature and dimensions of the problem. We may stress at least to bring home the fact that as facilities like education, public health, housing have a very important bearing on the uplift of the people of various classes, the provision of these facilities to them, must have acted positively towards an increase in their welfare to a considerable extent. But the magnitude of this problem for a vast country like India, has been so enormous, as to have been completely solved over a short period of a decade or so. We can hope that with whatever meagre progress achieved in this direction, at least a beginning is made and a foundation laid for a further and faster progress in the future.

5. Expansion of Public Sector:

The progressive expansion of the public sector was envisaged by the planners to act as a powerful lever to prevent the concentration of economic power and growth of monopolies. Its share in aggregate national expenditure and net domestic output, has been expanding at a faster pace. Its share in aggregate national expenditure increased from about 8.3 per cent in 1950-51 to 12.5 per cent in 1960-61. The growing importance of the public sector is also evident from the data

1) India, 1962, p. 135.

of relative share of different sectors in the reproducible, tangible wealth during the period 1950-61. The following table gives an account of its share in aggregate national expenditure and net domestic product.

Government Share in Net Domestic Product
and Aggregate National Expenditure
1950-51 to 1960-61
(Percentage Distribution)

	1950-51	1955-56	1960-61
Net output of public sector	7.5	9.9	10.4
Net output of private sector	92.5	90.1	89.6
Total	100.0	100.0	100.0
Government Current Expenditure on goods and services	5.6	6.8	7.4
Government Administrative Capital Expenditure	1.0	2.1	2.3
Government Enterprises Capital Expenditure	1.7	3.3	2.8
Total Expenditure in Public Sector	8.3	12.2	12.5
Total Exp. in Pvt. Sector	91.7	87.8	87.5
Net National Expenditure at market prices	100.0	100.0	100.0

Source: Estimates of National Income, 1948-49 to 1962-63, p. 5

Though as compared with the private sector, the share of the public sector is not so significant, it has been growing over time, though very slowly. Same is true of its share in aggregate national expenditure. No significant countervailing effect seems to have been made by the public sector in so far as the concentration of economic power and wealth in the private sector is concerned. Next we may examine the case of relative share of the different sectors in the reproducible, tangible wealth.

Size Distribution of Reproducible

Tangible Wealth (Rs crores)

Sector	1950 R.T. Wealth	Per cent of Total	1961 R.T. Wealth	Per Cent of Total
Household Sector	12,131	71	19,298	60
Organised Public Sector	2,905	17	8,041	25
Organised Private Sector	2,050	12	4,825	15
Total	17,086	100	32,164	100

Source: Report of the Committee on Distribution of Income and Levels of Living, p. 20.

Likewise, the share of the public sector in the paid up capital of organised manufacturing sector has been increasing faster, in absolute as well as relative terms. This can be seen from the following table:

(table on next page)

Paid Up Capital of Companies in

Public and Private Sectors (Rs crores)

Sector	1951-52	1960-61	Percentage Increase Over the Period	Average Annual Rate of Increase
Public Sector	46	526	1,043.5	115.9
Private Sector	809	1,270	57.0	6.3
Total	855	1,796	110.0	12.2
Public Sector as per cent of total	5.4	29.2		

Source: Report of the Committee on Distribution of Income and Levels of Living, p. 86.

The increase in the share of the public sector in the net domestic output, aggregate national expenditure, reproducible,tangible wealth and paid up capital, points towards the growing importance of this sector in the Indian economy. But to say that it has acted a potential check against the growth of monopolies and concentration of economic power, would not be correct. In the last chapter, we analysed the situation in detail and came to the conclusion that concentration of economic power instead of decreasing, actually increased over the period of the first two plans. If the public sector continues to grow at this rate, and government adopts complementary anti-monopoly and anti-concentration measures, this sector may make some in-roads in the empires of the private sector. What will happen in the future, will depend on the future governments and the governmental measures. It is not easy to predict the future with any degree of accuracy and exactness. What can be said on the basis of its past performance is that it suffered from several problems in the past in so far as it proper functioning is concerned. Some important aspects of these can be reviewed as follows.

There were some serious errors in the planning and evaluation of public sector projects. Most often they were started without proper decisions on their design, layout and scale of production. Some major changes in their design and scales of production proved to be rather costly. Along with this, in the case of some of the projects there were delays in their construction and completion. This happened because of the time consuming process of negotiations for foreign aid, with which the needed equipment was to be bought from abroad. The foreign exchange difficulties besides causing delays, often led to an increase in development costs.

Another important weakness of the public sector undertakings, had been the starting of some of the inefficient enterprises. This tendency was caused by the policy of import substitution. Enthusiasm about import substitution led to the establishment of a large number of industries, irrespective of their economic viability. In the process, some inefficient industries also got started. The important effect of such a policy was the emergence of some high cost industries, against the set norms of industrial specialisation. In the case of some of these industries, costs were two to three times higher than world prices. This meant not only low productivity, but also wastage of national resources.

The presence of unused capacity, was yet another defect of the enterprises in the public sector. The extent of the under utilization varied from industry to industry ranging between 20 to 100 per cent. For example, the unused capacity was 50 per cent in the case of the enterprises producing agricultural implements, 40 per cent in newsprint, 30 per cent in machine tools and about 25 per cent in cement and aluminium.[1] The presence of unused capacity led to an increase in costs, because of heavy overhead charges and low average productivity. Several factors were considered to be responsible for under utilization of productive capactiy. Among these, the most important ones were shortage of power, fuel, transport, raw materials, and to some extent, finance. Labour unrest and strike, etc. also contributed to low productivity.

It follows, therefore, that if the public sector has to play an important role in Indian economic development, and if it has to achieve the commanding heights in the economy, it will have not only to remove the above mentioned defects, but also become more competitive with the private sector. Only in this way, it will be able to gear the economy towards the socialist pattern. But in the light of its past performance, it seems to be quite an onerous task.

6. Development of Small Scale Industries:

The Five Year Plans emphasised the development of the small scale industries, because they constituted the decentralised sector of the economy, and so were expected to impinge on concentration of wealth and economic power. Besides, these were also expected to provide greater employment and more output of consumer goods. For these reasons the government adopted some special measures for their development, as underlined in the previous chapter. We may now examine as to how far

1) N.K. Sethi and M.D. Kothari, "Under-utilization of Industrial Capacity", a case study, Economic Times June, 1975, pp. 23-4.

was their progress a positive step towards the attainment of a socialist pattern of society.

The village and small industries, contributed almost as much as did the factory establishments to the national product. But they employed four times more workers than those employed by the large scale enterprises. The progress of small enterprises has been somewhat larger in handloom production and modern small industrial units. But no significant progress was made in developing small scale units as ancilliaries to large scale units, and in the dispersal of industries. In this way, the real needs and opportunities of the small scale sector were still to be met in future plans. This is so, because there is a great scope for labour intensive output in the rural areas, especially the production of a variety of consumer goods meant chiefly for local consumption. The local labour force, in this way, could make a large contribution to future production besides getting itself gainfully employed.

The role of small industries in the towns, has been more satisfactory than that of the village industries, because perhaps of the important role assigned to them in the government policy. These small industries, have been defined as the firms employing less than 50 persons and using power or employing 100 workers without power, and with a gross investment of Rs 5 Lakhs or less. The number of such industries during the Second Plan increased by about 1160. Inspite of a shortage or raw materials, the production in some important small industries expanded considerably. For example, machine tools, sewing machines, electric fans and motors, bicycles, hand tools, etc. witnessed between

25 and 50 per cent increase in output per year. The small sector as a whole, was estimated to have provided additional employment to about three lakh persons over the period under review.[1] The net output generated in this sector increased from Rs 91 crores in 1950-51 to Rs 126 crores in 1963-64, recording an increase of about 38 per cent and an annual rate of growth of about three per cent.[2] Inspite of this fairly satisfactory performance, the small scale industries sector, fell short of the role assigned to them under the plans, both in respect of output and the provision of employment opportunities on a larger scale. All the same, it would not be incorrect to say that their expansion uptil now, and their development in the future would go a long way in exercising a drag on the tendency of concentration of income, wealth, and economic power in the organised private sector of the Indian economy.

7. Countervailing Power of Labour:

Trade unionism was well on the move in India even before independence, and had won some important battles in the field of social legislation. Our purpose of studying the trade union movement in India is basically to find out how much it worked in the direction of reduction of distributional disparities, as desired under the socialist pattern. As the development of the trade unions and their strength for collective bargaining are the major instruments in the hands of the workers to seek fair share in the total output, they, therefore, act as a countervailing power to economic concentration and economic power. Moreover, this helps workers to ameliorate their working and living conditions over time, through collective bargaining. In this way, the trade union

1) W. Malenbaum, Prospects for Indian Development, London, 1962, p. 229.
2) Government of India, Estimates of National Income, 1963-64, p. 2.

movement acts in the direction of reduction of economic and social disparities from the lower end.

The growth of the countervailing power of labour can be seen from the growing number and membership of the trade unions recorded in the table below:

Number and Membership of Registered Trade Unions

Year	No. of Registered Trade Unions	Index Number 1949-50=100	Membership at the End of the Year (in Millions)	Index Number 1949-50=100
1949-50	3,793	100.0	1.98	100.0
1950-51	3,986	105.1	1.88	94.6
1955-56	8,095	213.3	2.27	114.6
1962-63	11,679	307.9	3.56	179.8

Source: Statistical Abstract of the Indian Union, 1961, p. 184 and India, 1963, p. 348.

The table shows that the number of trade unions more than doubled during 1949-50 and 1955-56 and trebled by 1962-63. The membership of the trade unions also increased by about 80 per cent during the period 1949-50 to 1962-63.

Next we have to see, as to how far this growth in the trade union movement has imparted the workers, greater power of collective bargaining to secure improvements in wages and working conditions. This can be seen in the following table.

Index Numbers of Earnings by Occupations

at Current Prices - (1950-51 = 100)

Year	Factory Workers drawing up to Rs 200 per month	Mine-workers	Railways	Rural Skilled workers	Net output per occupied person
1951-52	108.0	105.4	106.9	106.9	103.1
1955-56	122.4	115.8	113.3	108.1	97.0
1959-60	134.8	192.9	128.2	123.0	117.9
1960-61	143.5	199.7	137.0	N.A.	126.8

Source: Report of the Committee on Distribution of Income and Levels of Living, op. cit., p. 80.

There exist strong trade unions among factory workers, miners and railway employees. They succeeded in securing increased earnings by about 34.8, 92.9 and 28.2 per cent respectively over the period 1950-51 to 1959-60. The earnings of the rural skilled workers, also increased, but only by 23 per cent. This was so because they were generally unorganised and did not have effective unions. The second important thing to be noted in the above table, is that wages of the organised workers increased at a rate which was faster than that of the increase in the net output per occupied worker. It can therefore be said that the countervailing power of trade unions has been helping the workers in obtaining higher wages and acting in the direction of reduction of inequalities from the lower end. Here it must also be recognised that the cost of living index of the industrial workers also rose by a slightly less proportion, as noted before. Without an increase in earnings by collective action, the conditions of workers would have been miserable. So trade unions did safeguard the interests of the workers.

Another notable feature of the trade union movement in India,is that its collective action and class solidarity has tended to break down language, caste and creed barriers, which have for centuries been in existence. This can be called as one of the most remarkable developments in India, i.e. a positive step towards the socialist pattern.

Trade unionism has remained confined to the big industrial enterprises only and has not spread among the small enterprises. This seems to be so because of the small number of workers employed in a particular enterprise and also because of somewhat more cordial and close relations between the owner and the workers. Besides, in the case of the small scale industries sector, the extent of economic inequality is not to wide as it is in the organised sector.

As regards the future growth and strength of their collective action, it can be said that the trade unions may or may not maintain their solidarity and act collectively for their common cause. One doubtful feature or characteristic of Indian trade unionism,seems to be the existence of several national trade unions instead of one. For instance, there are four different national federations of workers, with strong ideological and political differences. The Indian National Trade Union Cogress (INTUC) is a workers'wing of the Congress Party. Likewise, All India Trade Union Congress (AITUC) is affiliated to Communist Party of India, while Hind Mazdoor Sabha (HMS) and the United Trade Union Congress (UTUC),are affiliated to the Janta Party and the Socialist Party respectively. The differences between them have not so much been damaging to the interest of the workers, but to that of the industrialists and the industrial production in the private sector.

We may hope that the situation will improve through a more effective tri-partite machinery being evolved to cope with this situation, as it has in the case of the public sector plants in which the workers' conditions are comparatively better.[1)]

We have underlined above the progress achieved in the direction of the socialist pattern of society, in terms of the measures envisaged by the government of India under the first two Five Year Plans. Let us see now, how far have these measures and their implementation gone in the building of a socialist society thus far.

As a result of the measures adopted under the Five Year Plans, the Indian economy which had remained stagnant for more than a century before independence, started experiencing a more rapid progress. This has been evident from the growth rates of savings and investment, national and per capita income, agricultural and industrial production, etc. All these indicators point towards the achievements which seem quite impressive when compared with the pre-plan performance of the Indian economy. Along with these achievements, the economy seemed to have built some pressure points during this period, with respect to rapid population growth leading to increased magnitude of unemployment and underemployment, widening of income and wealth disparities, food shortages and their heavy imports and the foreign exchange crises. This in other words, means that there have been two sides of this picture of Indian economic performance, representing a mixture of some impressive achievements and miserable failures. Let us further analyse this situation.

1) A. Maddision, <u>Class Structure and Economic Growth</u>, London, 1971, p. 127.

To begin with it must be noted that the Indian economy did experience some substantial changes in the growth pattern, as can be seen from progressive increases in the level and rate of investment and national and per capita income. As noted above, investment as a percentage of the national income increased from five per cent in 1950-51 to about 12 per cent by 1960-61. Along with this, the domestic savings also increased from about five per cent in 1950-51 to about nine per cent in 1960-61. Similarly, the realised rates of growth of national and per capita income by 3.7 per cent and 1.8 per cent respectively, during the First Plan and 3.5 per cent and 1.3 per cent respectively, during the Second Plan speak for themselves when compared with the pre-plan growth rates. No doubt the realised rates were short of the target rates, still they seem to be a considerable achievement, especially when we look at them, as the result of completely new experiment of planned development in a mixed economy with a large private sector.

Significant developments have also been experienced in the various sectors of the economy, though the structure of output did not change much. Production in the agricultural sector as a whole, increased at an average rate of about three per cent per year while that of foodgrains and non-food crops increased at the respective rates of 2.8 per cent and 4.8 per cent over the period under review. Though these rates are quite impressive, they were not sufficient enough from the point of view of the growing needs of the economy, as indicated by large imports of foodgrains, (especially during the period of the Second Five Year Plan).

Similarly, industrial expansion took place at an impressive rate of about six per cent per year during 1950-51 to 1960-61. Besides, the expansion in physical output some important changes took place in the industrial structure also, as noted above. A more satisfactory progress was experienced in the small scale industries sector, both in respect of expansion of employment opportunities and the output of consumer goods.

This brief review of economic progress during the first two Five Year Plans,shows that the economy experienced substantial and continuous growth, mainly because of the development programmes started by the government for both the public and private sectors. On the whole, the growth performance of the economy seems to be quite satisfactory, but development alone has not been the aim of the plans. Of equal, if not more, importance were the goals of employment expansion (though not full employment), a progressive reduction of income and wealth disparities, and a gradual transformation towards a socialist society. There has been a constant deterioration of the conditions in respect of both employment expansion and reduction of inequalities. As noted above also, unemployment problems assumed alarming proportions at the end of the Second Plan, and there was increased concentration of economic power in the hands of the few. This happened despite the measures adopted by the government to curb these tendencies. For instance, deepening and widening of taxation base, expansion of the public sector, growth of small scale industries, land reforms and the ceilings on landholding, community development and extension of cooperatives, strengthening of the countervailing power of trade unions, the regulation of the private sector in industry and similar other measures, failed to check income disparities and concentration of economic power. The accentuation of disparities in distribution of income and wealth, have been acting in the direction of making opportunities more unequal rather than more equal.

It follows from the above facts, that the forces which have an important bearing on the individuals and their working and living conditions have been operating in the diverse directions. Some of them, like the expansion of social services, community development, welfare of the backward classes, land reforms, etc. have been acting in the direction of making opportunities more equal than before. On the other hand, factors like growing unemployment and accentuation of distributional disparities,have been acting in the direction of making opportunities more unequal than before. It is not easy to say whether on balance, the opportunities had become more equal or unequal during the period under consideration. It may however be safely concluded that no significant advancement has been made towards the socialist pattern of society, and the provision of more equal opportunities for all.

CHAPTER 6

An Analysis of Performance Lags

We have underlined above some important shortfalls in the Indian economic performance, both in terms of the broad objectives of the Five Year Plans and the goal of socialist pattern of society. Now as a next step, we must find out the reasons for the performance lags. Some people attribute these lags to the development strategy adopted by the planners in India. Prominent among those who contribute to this view, are P.T. Bauer, J.P. Lewis, Jagdish Bhagwati and P. Desai, A.H. Hansen and others. The second school, consisting mainly of K.N. Raj, S. Chakravarti, T.E. Weisskopf, Manmohan Singh and others, believe that there has been basically nothing wrong with the development strategy as such, and the lags were due to some other reasons. We may go into the details of these two view points.

According to the first view, there has been something basically wrong with the strategy of development and its implementation. The policy of the government regarding the choice of industry mix which emphasised import substitution and large investments in industry, mainly through foreign aid, ignored the importance of consumer goods industries and agriculture. There has been undue haste in the development of a large number of heavy industries and expansion of the public sector. The proponents of this view, therefore, advocated a change in the strategy, so that more resources were allocated to agriculture and the consumer goods industries. There should be slowing down of the pace of public sector and the heavy industries.

The second view on the other side holds that the broad strategy and the general lines of development have been quite sound, and that the strategy eminently suited the Indian conditions. Initiating economic development in a static society is not a small job and there are, therefore, bound to be some shortfalls or lags as well as miscalculations in the process of doing so. Moreover, the plans in this period had been based on inadequate and incomplete data, simply because the same was not available then. Valuable information gathered during this period and the experience gained, would stand the planners in good stead in the future, to plan better and rectify the past mistakes. The results in future would, therefore, be more consistent with programmes than those they have in the past.

Which of these two views is more tenable? An account of the Indian economic performance and the important shortfalls, as underlined above, indicate that the first view while no doubt having substance in it, is not wholly correct. This is so because for her development, India needed more of capital and intermediate goods. She has been endowed with rich resources of high grade iron ore and coal, which exist in close proximity of each other. So the emphasis on the development of heavy industry, starting from the Second Plan onwards was not a misplaced one. Instead, some of the important implications of this strategy were not clearly grasped, and later led to some serious problems and difficulties. We may examine these implications in detail.

First, we may take the case of agriculture. The main difficulty in the past was not so much a lack of emphasis or the paucity of resources, but that of stress on technological and organisational reforms.

The need for the land reforms was equally urgent. What was needed was a policy with emphasis on these aspects. In other words, there was an urgent need for improvement in the supply of various agricultural inputs, like fertilizers, pesticides, better seeds, suitable machinery and implements, better irrigation facilities and dissemination of information about these and the related matters. The government spent a lot on irrigation projects, community development projects and extension services, but did not pay enough heed to the technological aspects. Consequently, whatever increase in agricultural production took place, was due mainly to increases in the cultivable area and not so much to increased yields per acre. So it would not be correct to suggest that the planners neglected agriculture in order to develop industry. Professor Malembaum puts the situation in these words,

> "Oddly enough, the new course does not require new tools so much as better use of tools already devised. This is especially true for progress in agriculture and rural India, so important in themselves and because of their influence on industrial and urban India."[1)]

Secondly, we may take the case of industry and the strategy adopted in respect of its development. In an overpopulated underdeveloped country like India, industrialisation becomes essential in order to initiate the process of economic development and to lessen the excessive burden of population on agriculture. In the words of Professor Reddaway,

1) W. Malenbaum, Prospects for Indian Development, London, 1962, p. 234.

> "It is fairly natural for somebody who is aware of the overcrowded nature of Indian agriculture to assume that the main emphasis on the development should consist in expanding industry, leaving agriculture to look after itself."[1)]

The stress on the basic and heavy industries also cannot be said to have been wholly unwarranted. India is endowed with vast and varied resources suitable for the development of basic industries. Such industries were expected to build the foundation for indsutrialisation and help in achieving self reliance. So greater part of the investment in the industrial sector was directed towards the producer goods industries as against the consumer goods industries. But the expansion of consumer goods industries was not totally neglected either. The Second Plan specially emphasised the development of the village and small industries in rural as well as urban areas. A greater emphasis on producer goods industries was considered necessary for a faster future growth of the country. Though this was largely true, its implications were not clearly grasped. The first one was that the producer goods industries especially those producing machines for the production of machines have been capital and foreign resources intensive,and so called for the mobilization of resources on a very large scale both internally and from abroad. Secondly, they have long gestation period and so involved greater sacrifice in terms of 'waiting'. We may examine these implications in some detail.

The second Five Year Plan was much bigger and bolder than the first one, and was conceived mainly in terms of physical resources to

1) W.B. Redaway, <u>The Development of Indian Economy</u>, London, 1962, p. 52.

achieve physical targets. But its financial aspect was not clearly understood or realised. This is so because the bigger investment called for mobilization of domestic resources through the taxation or savings, which the government failed to accomplish. This is evident from the fact that while as a proportion of national income,investment reached about 12 per cent, domestic savings remained only about nine per cent,in 1960-61 Therefore, to meet the requirements, the government had to resort to deficit financing and large scale borrowings abroad, which resulted in the rise in prices and the balance of payments problems. Shortage of essential consumer goods,especially the foodgrains further accentuated these difficulties.

The public sector was expected to play the major role in the development process through the establishment of a large number of projects and industries. But the non-availability of the resources led to cut backs on expenses and thereby slowed down the process of their completion. In the words of Bhagwati and Desai,

> "with a number of projects started on the basis of larger outlays plan, the eventual slowing down would involve cut backs on most of them leading to the observed phenomena of too many starts and too few completions."[1)]

Some of the projects started during the second plan remained pending for completion,while some others had excess capacity which could not be fully utilized. Hence the financial implications of the huge outlays were not clearly understood.

1) J. Bhagwati and P. Desari, India, Planning for Industrialisation, London, 1970, p. 120.

Secondly, as the capital goods industries have also been foreign resource intensive, their implication of strain on foreign exchange position was not duly considered. This strain could be lessened by encouraging the development of some of the export industries in which India had comparative advantage. This does not necessarily mean that all the industries started in the public sector during the second plan period, did not have a comparative advantage. Instead, this only implies that to reduce the pressure on foreign exchange, the industries could have been phased, including some which could export a substantial proportion of their output. This in other words, means that there could have been an appropriate time phasing of industries in the light of social time preference and the emerging trade possibilities. A rational choice between various industries was also needed because of limited supply of managerial and technical personnel.

Further, a review of the process of project formulation and project selection suggests that it was not systematically done. Their economic and technical viability was not properly appraised. For example, a study of the Heavy Electricals Limited at Bhopal and Heavy Engineering at Ranchi, made by an official team of experts, revealed that their internal rate of return was only one to three per cent per year.[1)] Similarly, the private sector projects were supposed to be cleared by the government through a system of licensing after a proper scrutiny of their financial and technical feasibility. In actual practice, licences were issued on the basis of some ad-hoc considerations keeping in view only the general targets rather than any sound economic criteria.[2)]

1) Ibid, pp. 158-60.
2) GoI, <u>Fourth Five Year Plan</u>, New Delhi, pp. 25-29 and 301-314.

Moreover, there was no control over the private sector with regard to the use of resources for developmental and non-developmental uses. This means that the planners underestimated the task of implementing the industrialisation strategy in a mixed economy, in which a larger part of resources was allocated through the price mechanism.

The second important implication is related to the question of short term and long term gains of development, and their distribution among the people of the different strata of society. As the development strategy emphasised the industries with long gestation period, it implied high degree of 'waiting' in so far as the long term gains are concerned. This means that the strategy did not do much to tackle the problems of poverty, unemployment and distribution of short period gains. Perhaps this became the weakest spot of the strategy and a subject for severe criticism.

In a democratic country like India, there can be two possible methods through which this problem could have been tackled. The first is that of a redistribution of wealth and income in favour of the poorer sections of society. This method did not find favour with the government and the Indian planners, and so there could never be a question of using it in any desirable dimensions. The second method, stressed creation of substantial volumes of new employment among the poorer classes at a socially desired rates of real wages. The planners regarded employment creation as a long term problem linked with the expansion of the existing productive capacity of the economy. In the short period, large volumes of employment are not feasible because of the conflict between employment and output objectives. The second plan particularly equated a high employment strategy with high consumption and low investment strategy. For these reasons the employment problem was treated as subsidiary to the basic strategy. But in fact,the solution of unemployment problem goes beyond increasing the ratio of investment per worker. A deliberate effort is therefore needed to direct investment into specific areas,if the burden of unemployment is to be eased and ultimately eliminated.

Related with this problem of distribution of the short and long period gains of development among the different sections of the society, especially the under-privileged ones,was that of building the socialist pattern of society in India, the main aim of which was the provision of equal opportunities to the backward classes and the weaker sections of society. No doubt some important steps were envisaged by the Five Year Plans to ameliorate the conditions of the weaker classes and to provide them equal opportunities, but unfortunately, no perceptible progress could be realised towards this end. For instance, despite measures like progressive taxation, land reforms, community development programmes, reservation of vacancies for scheduled castes and scheduled tribes, banning of untouchability and the caste system, the income and wealth disparities and concentration of economic power increased. This can not be related so much to the strategy of development as to the administrative inefficiency, lack of will to implement the stipulated programmes,and extreme degree of corruption at the higher administrative levels. It is for these reasons that no significant or substantial advance could be made towards the cherished goal of socialist pattern of society.

From the above analysis of the performance lags,we may conclude that there had been basically nothing wrong with the development strategy and it eminently suited Indian conditions. What has been lacking in it was that some of its important implications were not fully realised,which led to the lags in performance and creation of some serious difficulties. This may be explained better in the words of Professor Man Mohan Singh, presently a member of the Indian planning commission,

> "Beginning with the Second Plan, India started laying greater emphasis on the development of heavy industry. The Second Plan was influenced greatly by Professor Mahalanobis' thinking. However, the fact that Professor Mahalanobis did not use the magic words 'comparative advantage' and laid emphasis on the need to produce machines to produce more machines does not necessarily imply that the decision to set up a heavy capital goods industry in India could not be justified on considerations of comparative advantage. A country like India faced with unfavourable prospects for traditional exports, rising domestic requirements of intermediate products and capital goods in the process of development and having vast reserves of high grade iron ore lying in close proximity to coal,had very good reasons to embark on the development of an iron an steel industry. However, subsequent events have shown that managerial and technological problems in setting up

the complex of entirely new industries were greatly underestimated and the actual rate of return on many of these investments has been much lower than expected. But this does not prove that the strategy of import substitution was necessarily wrong. The low rate of return on these investments is a reflection of the general problem of low productivity of capital in a poor country and there is no reason to believe that had these investments been made in entirely new export industries, some of the problems which have now arisen would not have done so."[1)]

In short, the development strategy in terms of industrialisation of the country and its future growth, seems to have been appropriate. The important shortcoming in respect of social justice and an increase rather than a decrease in income and wealth disparities and economic concentration, can not be explained in any other way except that it was the weakest spot of the strategy.

1) Man Mohan Singh, "Trade Policies and Development" in Economic Development in South Asia, Ed. E.A.G. Robinson and M. Kidson, McMillan, London, 1970, pp. 461-462.

CHAPTER 7

Summary and Conclusions

India became independent on August 15, 1947 and inherited from the past a poor and backward economy. She had a large and rapidly growing population, static agriculture, very small industrial sector, and partially developed tertiary activities. Her overall structure gave the look of a traditional economy, in which agriculture had the major share, as about 3/4th of the population earned their livelihood from it. Average productivity in this sector was very low, because of the excessive population pressure, antiquated land tenure, and traditional methods of production. Consequently, the level of living in the rural areas was very low, in so far as the mass of the rural population is concerned.

Conditions in the industrial sector were somewhat similar. This sector consisted of both small and large industries. Large scale or the factory industry, absorbed no more than two per cent of the labour force, out of the total of 11 per cent engaged in this sector. The factory industry made use of the modern methods, but the small scale units on the other hand still employed age-old methods. The average productivity in this sector though higher than in agriculture, was not very high to provide people with a comfortable living. The large industries were confined to a few industrial cities in the country, which did give the look of modernity, but the majority of the working force received meagre wages. Likewise, productivity in the small industries was not high enough to fetch high incomes for a reasonably good standard of life. So with the exception of a small minority of big businessmen and industrial families, the majority of the urban population like the rural folk had a meagre living. This was also because of the fact that conditions in the tertiary activities were no better. The service trades too had become rather over-crowded, due to rapidly rising population, and their average productivity declined considerably.

Coupled with the traditional structure of the economy, was the problem of large and rapidly growing population. For instance, in 1951 India had a total population of 361 million, which was growing at a rate of about two per cent per annum. With low per capita or average income and high marginal propensity to consume, the rate of savings and capital formation could not be expected to be high. Consequently, the rate of economic progress could not be expected to be high, either. According to some estimates, the rates of savings and capital formation were no higher than five to six per cent of the national income. So with such a low rate of investment and domestic savings, the economy grew at a creeping rate of about one per cent per annum over the period of one and a half century before independence. At such a low growth rate, it could not be expected to absorb the rapidly growing population which had to fall back upon over crowded agriculture small industries, and the more than adequately manned service trades. Unemployment and under-employment were the obvious consequences of this phenomena.

With this state of affairs, within the domestic economy, Indian trade prospects could not be expected to be bright either. Foreign trade and foreign capital do help in the process of economic development, as they did, in the case of most of the present day advanced countries of the west. But in this sphere too the scope for India did not seem so bright. She had only the traditional goods to export, the demand for which had started declining,because of low income-elasticity of demand for them and secondly,because of the production of close substitutes. Similarly,the borrowing in the international capital market was no longer a possibility,because of its disappearance after the 30's of the present century. Scope for international loans and grants was also limited,because of the heavy burden of debt servicing etc. So the international situation, did not also seem to be favourable enough for the much needed progress to alleviate the problems of poverty and backwardness.

Under such conditions, the Indian leaders had two options before them with regard to the twin problems of poverty and backwardness. The first was the Gandhian path, which emphasised the simple life of spirit and a few wants, handicrafts and small industries and village self-sufficiency. This path meant returning to the so-called glorious past which India had before the advent of the British, rather than imitating the west blindly. The second option was rapid industrialisation and development of the economy, to cope with the problem of poverty. The left wing in the Indian National Congres led by S.C. Bose and J.L. Nehru were its chief proponents. As Jawaharlal Nehru became the first Prime Minister of independent India, the path of planned industrialisation and development, were chosen to tackle poverty and backwardness, instead of the Gandhian solution.

Indian experiment with planning was to be something unique, because of its federal and democratic political structure, and the accepted goal of socialistic pattern of society. It was to be different from both totalitarian method of the Communist type and the pragmatic intervention by Government in the free enterprise system. In a mixed enterprise system, with the public sector having the commanding heights, the planning was supposed to be both democratic and somewhat decentralised to enlist public consent and its maximum cooperation. In this sense, it was democratic and decentralised planning, even though plans had been formulated at the national level through the Central Planning Commission. There was a mixed reaction both within the country and abroad, about this new experiment. There were arguments in its favour and against it. The new Government decided to go ahead with it through a series of phased plans, starting in 1950-51 when the First Plan was formulated.

The long term objectives of the plans, have been development with social justice, so that the gain of development may be distributed more equally in favour of the poor and the downtrodden, who lived in poverty for centuries. The short term objectives though varied from plan to plan, had something in common too. For instance, almost every plan emphasised self reliance, expansion in investment, income and employment and reduction in inequalities of income and wealth. Among these, self reliance was accorded the highest priority since the period of the second five year plan. The idea underlying this objective, was that India should become self sufficient in the shortest possible time. The strategy evolved for this, was the development of heavy and basic industries, as these serve as the foundation for the development of other industries as also the other sectors of the economy.

This strategy evoked a good deal of criticism, as it had very important implications in respect of the availability of resources and the achievement of other objectives, like expansion of employment, reduction in inequalities of income and wealth etc. The strategy though basically sound laid some misplaced emphasis on some points and ignored some others. For instance, it stressed all sort of industries in the heavy industries sector and ignored the consumer goods industries. Agriculture too was left to look after itself, and it was not helped in the badly needed technological breakthrough. Reduction in inequality through redistribution and expansion of employment was also relegated to a subsidiary status. Consequently, the levels of living and extent of poverty remained almost where they were. This called for some shifts in policy towards this sort of strategy so that the pressure points like food shortages, foreign exchange difficulties and unemployment could be eased. This meant going slow with the development of heavy industries. This was necessary for another and equally important reason of selection of efficient projects, after proper evaluation of their costs and the demands for their products, so that their capacity could be fully utilised. Moreover this involved more than the normal cost in terms of waiting and suffering of the people.

Consequently, upon the adoption of this strategy of development, economic growth though satisfactory in general, was not quite sufficient in terms of the growing requirements of the rapidly increasing population. There were shortfalls of serious nature in both the agricultural and industrial production as against the targets set for them. The basic structure of the economy remained almost the same, even after a decade of planned effort. The population grew at a faster rate during this period, i.e. at about 2.5 per cent per year. This depressed the already low and unsatisfactory living conditions. Very little was done for employment creation, which it was given a secondary status. Also little was done to reduce poverty and improve the lot of the poorer sections of the Indian society. Consequently, the rich have been getting richer and the poor, poorer. This situation was further affected adversely, by the inflationary rise in prices and regional differences in the rates of progress.

The Third and the Fourth Five Year Plans recognised some of these shortcomings and tried to rectify them, but since the basic strategy remained unchanged these efforts did not amount to very much.

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