The History of Economic Development in India Since Independence

Dr.Ch. Rajalingam
Associate Professor in Commerce
A V College of Arts, Science & Commerce, Gaganmahal
Domalguda Road Hyderabad Telangana

Abstract

The task that the democratically elected leaders of newly independent India embarked on in the early 1950s was not for the faint of heart. It was to lift living standards of a people accounting for one-seventh of the world's population who earned an average income that was one-fifteenth of the average American income of the time.[1] Three-fourths of the Indian people were engaged in agriculture working with primitive tools and techniques, as either destitute landless labourers, highly insecure tenants-at-will, or small-plot holders eking out subsistence living from their meagre plots. The literacy rate stood at 14 percent, and the average life expectancy was thirty-two years.

How successful has the country been in fulfilling the task over sixty years later? The charts in this article, using World Bank data, show how some of the country's development indicators have changed in the last half-century. The country has experienced an increase in per capita income—especially since the 1980s—as well as reductions in poverty and infant mortality rates. These improvements are not insignificant and mark a sharp break from the near stagnation that the country experienced during British rule. But a comparison with the later superior performance of China and South Korea, countries with a comparable level of development in the 1950s, reveals that India's performance remains below its potential. How did that come about? This essay provides an account of India's strategy of economic development, its achievements, shortfalls, and future challenges.

Key words: Economic Development-strategy of economic development, its achievements, shortfalls, and future challenges.

Introduction:

The government in the 1950s adopted a very particular strategy of economic development: rapid industrialization by implementing centrally prepared five-year plans that involved raising a massive amount of resources and investing them in the creation of large industrial state-owned enterprises (SOEs).[2] The industries chosen were those producing basic and heavy industrial goods such as steel, chemicals, machines and tools, locomotives, and power. Industrialization was pursued because leaders believed, based in part on the beliefs of some economists, that the industrial sector offers the greatest scope of growth in production. It

was not that the Indian agricultural sector offered no scope for growth. Crop yields in India were quite low compared to other countries, and the recent famine in 1943 had underscored the need to increase food production. Still, Indian leaders did not want to make agriculture the mainstay of their strategy. The pre eminence of agriculture they believed was characteristic of a backward economy, and growth in agriculture eventually runs up against the problem of insufficient demand. There is only so much, after all, that people are willing to eat.

Investments in the creation of *public* enterprises were chosen because one goal of the government was to establish a "socialistic pattern of society," i.e., using democratic methods to bring large swathes of the country's productive resources under public ownership. Industries producing basic and heavy goods were chosen for investment over consumer goods because the government wanted to reduce the country's reliance on imports of basic and heavy industrial goods in line with their belief in the goodness of national self-reliance. The production of consumer goods such as clothing, furniture, personal care products, and similar goods was left to small privately run cottage industry firms that had the added advantage of being labour-intensive and therefore a potential generator of mass employment.

The particular nature of the chosen strategy of development can be understood by comparing it to the alternative strategies that could have been adopted. One such strategy would have been to prioritize public investments in not industry but agriculture, which was the source of livelihood for more than three-fourths of its people. Investments in agriculture take the form of irrigation projects, education of farmers in scientific methods of farming, construction of rural roads and storage facilities, and agricultural research and development. Once the agricultural sector was relatively healthy and the poverty of its participants somewhat reduced, rising incomes could have been used to finance industrial development. The planners rejected such a strategy because putting off industrialization meant that the country would have to continue to rely on imports for needed industrial goods, while the leaders were impatient for the industrialization they identified with progress.

Though leaders were cognizant of the dynamism of the private sector and the existence of India's vibrant entrepreneurial class, they rejected the strategy that involved a prominent role for the private sector out of a commitment to establishing the socialistic pattern of society that they believed was morally superior. As things eventually turned out, the country came around in the 1990s to adopting this previously rejected strategy.

In order to assure the success of the government's chosen strategy in the 1950s, complementary measures were put in place. Most industries were given significant trade protection so that their growth was not hampered by competition from more efficient foreign producers. An industrial licensing system was set up to ensure that private enterprises would not expand beyond the bounds that national planners had set for them. The system required all private firms beyond a certain small size to obtain a license whenever they wanted to

expand capacity, produce new products, change their input mix, import inputs, or relocate plants. The system put the activities of the private sector under significant control of the government. Pundits and students of political economy who were not socialists derisively nicknamed this stifling system "the license Raj," comparing this economic format of oppression to the political control of the imperialist British Raj.

Their strategy of increasing agricultural production was based on plans to reform agrarian institutions. According to the thinking of the planners, the poor performance of Indian agriculture was due to the fact that tillers did not own the land they worked, so they had little incentive to make land improvements that would increase long-term productivity. The government planned to implement legislation to redistribute land from large landlords to actual tillers and improve the terms under which tenant cultivators leased land from the landowners. The government also planned to organize small farmers into cooperative societies so that their resources could be pooled in order to buy modern tools and implements and the strength of their numbers could be used to obtain higher crop prices. In addition to increasing agricultural production, such reforms were also expected to alleviate the poverty of the huge class of peasants.

The Initial Results

Industrialization was a moderate success. The newly created public enterprises, albeit after major cost overruns and several delays, turned out steel, chemicals, and other products that were generally associated with developed countries. A British colonial official in the early twentieth century once scoffed that he would be willing to eat all the steel than the Indians would produce.[4] If alive in 1960, he would have eaten 6,300 tons of steel.[5]

Still, by the late 1950s several problems resulting from the planners' chosen strategy of economic development were coming to the fore, and such problems intensified in the 1960s and the 1970s. Many SOEs were run on political rather than economic considerations, so they produced losses that drained government resources rather than—as the planners had hoped—augmenting them. The SOEs could also not be counted on to generate mass employment due to their capital and skill rather than labour-intensive character. Several enterprises were overstaffed and faced insufficient demand for what they produced, forcing them to render idle some of their capacity. The case of the Haldia fertilizer plant is an extreme but illustrative example. The plant was set up in the 1970s and employed 1,500 people. The workers and managers showed up regularly, kept the machine facilities clean and in working condition, and often received annual bonuses and overtime. They lived in a nearby spanking-new township built specially for them, one that had excellent roads, schools, and homes. There was only one thing missing. Because of numerous problems, the plant never produced even an ounce of fertilizer. Yet the government kept Haldia's lights on for twenty-one years.[6]

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The expenditures necessitated by the massive investments in SOEs generated new problems. One government method for financing expenditures was the creation of new money, which resulted in significant inflation. The

government feared the political backlash that the rising prices could generate. Consequently, it resorted to price controls of essential commodities, which caused black markets to flourish, and the government found itself resorting to increasingly intrusive regulations and engaging in cat-and-mouse games with traders. At one point, the government even attempted to nationalize wholesale trade in grains without much success. The plans for the reform of agrarian institutions did not pan out. The push for land redistribution ran into political opposition and clashed with the requirements of due process, so as little as 5 percent of the land was actually redistributed. The creation of agricultural cooperatives also did not materialize due to difficulties of organization and lack of enthusiasm on the ground. Agricultural production barely kept pace with population growth, and the country's food security remained precarious. The drawback of prioritizing industry over agriculture for public investments became glaringly apparent when the country experienced a food crisis in the mid-1960s, necessitating urgent large-scale imports of subsidized grain from the United States. The crisis undermined the government's claim that its strategy of prioritizing industry over agriculture for public investment would increase national self-reliance.

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Under the fixed exchange rate regime that existed in the country, high inflation in the 1960s reduced the country's exports while increasing its imports, resulting in a shortage of foreign exchange. The shortage was exacerbated by the food imports made necessary by a drought and a war with Pakistan. Foreign exchange became one of the items the government had to resort to rationing. The reverberations were felt throughout the economy. Several new factories lay idle for want of foreign exchange to import some necessary inputs, while others hoarded foreign exchange to starve their competitors or earn a premium in the black market. Holding foreign exchange without a license became an offense punishable by jail time. Ultimately, the rupee had to be devalued, which generated further disruptions in the economic lives of most people.

Meanwhile, the industrial licensing system, designed to ensure that the private sector operated according to the five-year plans, became a source of much inefficiency and corruption. The micromanagement of the private sector called for much more knowledge and technical ability than government bureaucrats possessed. The system descended into a mechanism for rewarding political supporters of the rulers, which undermined the confidence of the people in the integrity of their governmental institutions.

Perhaps the most unfortunate legacy of prioritizing industry at the expense of other alternatives for investment was that scarce public resources were diverted away from health and education. The meager resources expended on these in India stand in marked contrast to the plentiful attention paid to them in China and other Asian countries. Seventy years after independence, India has still to catch up on these fronts; one-half of its children are malnourished, one-half of women are illiterate, and two thirds of its people lack basic sanitation.

As a result, a large fraction of Indians today are unable to directly take advantage of the opportunities opened up by the country's recent tilt toward a market economy and globalization.

The Change in Strategies

In response to the food crisis of the mid-1960s, the government changed its agricultural strategy. Rather than holding out for the reform of agrarian institutions, it began to guarantee higher crop prices to farmers and utilize subsidies to promote use of modern inputs such as chemical fertilizers and high-yielding varieties of grain developed in other parts of the world. The resulting surge of production—the so-called "green revolution" of the late 1960s—made the country self-sufficient in food grains. The strategy was controversial because it increased economic disparities among the farmers. For the greatest chance of success, the government had to focus its strategy on the irrigated sections—the very parts of the country that were already doing relatively well. The uptake of subsidized inputs was also the highest among large landowners, owing to their greater education, creditworthiness, and the ability to bear the risk posed by adopting new methods. The strategy did not do much to alleviate the economic condition of the agrarian poor, other than providing the indirect benefit of living in a country with better overall food security that has not since experienced famine. Micronutrient deficiencies (not caloric) such as anemia are today a bigger problem among the poor, and the country's health indicators lag behind those of other countries with comparable levels of income.

The strategy toward industry, however, turned more interventionist after 1965. Elaboration of all the reasons for this need not detain us here; there is a strong case that the interventionist turn was a cynical ploy by new Prime Minister Indira Gandhi for consolidating her power in response to certain political developments. The new policy stance displayed a suspicion of large firms and a preference for the small. The licensing system imposed additional restrictions on the activities of large firms, curtailing their growth. Under a policy that was one of a kind, consumer goods such as apparel, footwear, furniture, sporting goods, office supplies, leather goods, and kitchen appliances were reserved by law for production by small firms. Foreign firms were asked to dilute their ownership stake in their Indian subsidiaries and in response, multinationals such as IBM and Coca-Cola closed their operations and left the country.

To the extent that the success of the large firms was due to their superior technical or organizational capacity, the curtailment of their growth meant that such capacity remained underutilized. Delays and arbitrariness in the issuing of industrial licenses resulted in supply bottlenecks and shortages of many consumer goods. For example, in the 1970s, there was an eight-year waiting list for people wanting to buy a scooter, the preferred vehicle for middle-class Indians.

India celebrates its 73rd Independence Day on 15th August 2019. Its development journey over the last 72 years has been marked by significant milestones and reforms that enabled it to achieve substantial progress in many areas including rise in income levels, growth, literacy, life expectancy and a wide variety of other

economic indicators. As India commemorates 72 glorious years as an independent nation, let's look back at some of the significant achievements of our economy over the years.

Incomes expand

Since 1947, India has achieved tremendous progress in raising growth, income levels and standards of living. The gross domestic product (GDP) increased from Rs 2,939 billion during 1950-51 to Rs 56,330 billion during 2011-12 (2004-05 constant prices). In 2018-19, India's GDP was valued at an estimated Rs 1,40,776 billion (2011-12 constant prices).

At the same time, the average Indian citizen earned an income of just around Rs 7,513 during 1950-51 which increased to Rs 41,255 during 2011-12 (2004-05 constant prices) and further to Rs 92,565 during 2018-19 (2011-12 constant prices). The per capita income increased in real terms despite a significant increase in the population of the country.

Agriculture and allied sectors boom

The agricultural sector continues to be an important sector in the Indian economy and generates livelihood for more than half the population. The real gross value added by the agriculture, forestry and allied sectors went up from around Rs 1,502 billion in 1950-51 to around Rs 22,263 billion as per the 2011-12 calculations.
The advent of the Green Revolution during the 1960s was a game-changer for the country. It saw the adoption of modern technology and methods to produce high yield variety seeds, that significantly raised agricultural productivity and increased foodgrain production.

The net production of foodgrains in India increased from around 48 million tonnes during the 50s to a massive 241 million tonnes during 2017. India continues to be one of the largest producers of rice, wheat and various fruits and vegetables in the world and is also the leader in milk production.

Industry diversifies

India has also made significant strides in terms of industrial development since Independence. The Industrial Policy of 1991 constituted a major economic reform and was introduced to reinvigorate the industrial sector. The policy dismantled the system of industrial licensing and opened the sector for greater private sector participation as well as foreign investment.

In terms of real gross value added, manufacturing, construction and electricity, gas and water supply sector stood at around Rs 401 billion during 1950-51. Presently, the sector is valued at around Rs 36,684 billion (2011-12 series).

Many sectors gained pace in the manufacturing scenario. From just 3 automobile companies, the automotive sector attracted global multinationals and built up a range of products of global quality standards. In

pharmaceuticals, India is now a major producer and undertakes research to develop new drugs. Engineering and electrical machinery goods have evolved to global benchmarks as well.

In services, new sectors such as Information Technology and telecommunications have transformed the landscape, creating new opportunities such as e-commerce and startups. India's IT skills are renowned the world over.

Conventional services industries have also expanded, with financial services, tourism and hospitality, and retail changing in multiple ways, adapting to technology and gaining share in the economy. The real gross value added for the services sector comprising of trade, hotels, transport and communications increased from around Rs 308 billion during 1950-51 to Rs 14,023 billion during 2011-12 (2004-05 series) and is estimated at around Rs 24,711 billion during 2018-19 (2011-12 series).

Building India

India has also made significant headway in infrastructure and has worked over the years to establish a robust transport network. The length of roads increased from around 0.4 million km during the 1950s to around 5.9 million km post 2016-17.

Length of national and state highways have also increased substantially while the number of registered vehicles has gone up from 0.31 million during 1950-51 to around 253 million during 2016-17. Civil aviation has also witnessed immense growth, with number of passengers increasing from only 10.74 million during 1980-81 to an estimated 345 million during 2018-19.

India's power sector has also diversified significantly and made substantial progress since Independence. The total energy generated by the hydro, thermal and nuclear sectors increased from only 5.1 billion KWH during 1950-51 to 1,303.5 billion KWH during 2017-18. India's installed plant capacity went up from a mere 2.3 thousand MW during 1950-51 to 399 thousand MW as of 2017-18.

Converging with the world

The process of liberalization that was started during the mid-1980s to make the Indian economy more open to trade and external flows gained pace during the 1990s. The objective was to improve the efficiency of the Indian economy through reduction in trade barriers such as import tariffs.

Today, India has developed a significant footprint in the global economy. The value of exports of goods and services stood at just around USD 0.1 billion during 1950-51 while merchandise exports was valued at USD 330 billion in 2018-19. In services exports, India has emerged as the top exporter of IT services.

Development progresses

India has also come a long way in terms of improving its human development indicators. Literacy rates have increased significantly, from 18.3% during 1950s to 52% during 1990s to 73% during 2011.

This has been accompanied by major improvements in other socio-economic indicators such as increase in the gross enrollment ratios in school and rise in the number of recognized educational institutes in the country, among others.

Households' access to safe drinking water at the all-India level improved from 81.4% during 1991 to 91.4% during 2011. In healthcare, the advent of sophisticated and modern technology has led to reduced prevalence of diseases and increased longevity.

Promise of the future

The reform pace continues at a fast pace with major reforms such as the introduction of the landmark Goods and Services Tax, the Insolvency and Bankruptcy Code, and Ease of Doing Business reforms, among many others, being introduced. All these promise to contribute to an ever growing and ever evolving economy and spur further economic growth. India@75 is the new milestone on which the country has set its sights, the year 2022 when it completes 75 years of Independence. The Indian growth story continues as it celebrates yet another glorious year as an independent nation.

The provision of public services in India is appallingly poor. Government schools and clinics are underfunded and inadequately supervised, and their workers display low morale and high absenteeism. Yet such public institutions are rarely held accountable for their performance.[11] The middle class has largely opted out of the system in favor of private health care, schools, and transportation so there is little political pressure from them to improve the system. Most middle-class Indians now even own a power generator to cope with everyday power cuts. The poor take the brunt of the derelict public services. Two million children die in India every year from easily preventable diseases, according to the United Nations Children's Fund (UNICEF), and immunization rates in India are amongst the lowest in the world. Air pollution levels in urban areas pose a severe public health crisis. According to a survey by the World Health Organization (WHO), thirteen out of the twenty most polluted cities in the world are Indian.[12] The country still relies heavily on inexpensive coal to generate power and has shown very little willingness to move toward alternative energy sources.

Given the current policies and state of governance in India, it is hard to see an obvious path into the middle class for the multitudes still remaining in poverty. Global demand for low-wage, low-skill labor to sew T-shirts or assemble TVs is not what it used to be, because production is now becoming increasingly mechanized and some of it is being "reshored" back to the rich countries. For several hundred million poor people in delicate health and with little education, the country will have to find a way to overcome the technical, institutional, and economic barriers to developing the capabilities necessary for functioning in a twenty-first-century economy. It is not a task for the faint-hearted.

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