UNIT 38 FROM PLANNED ECONOMY TO GLOBALISATION*

Structure

38.1 INTRODUCTION

Any attempt to evaluate India's journey after independence from planned economy to globalisation and liberalisation will have to place the Indian experience both in a historical and comparative context. We have to evaluate the experience taking into account the level and stage from which the beginning was made, the uniqueness of the effort to undertake an industrial transformation within a democratic framework and compare our achievements with other countries at a comparable stage of development.

First, what was the India we inherited at independence in 1947 after colonialism, for nearly two hundred years, had ravaged our economy and society and deprived it of the opportunity of participating in the process of modern industrial transformation occurring in other parts of the world?

Various estimates show that by the end of colonial rule, i.e., between 1914 to 1946, India's national income grew at a paltry rate ranging between 0.73 to 1.22 per cent per annum. The per capita income during this period showed stagnation if not decline, the estimates ranging between 0.26 and -0.26 percent per year.

Agriculture, the largest sector of the Indian economy, was in a state of ruin. Per-capita agricultural production decreased at 0.72 per cent per year during 1901-1941. All crop yields per acre declined by 0.02 per cent per year and food grain yields declined much more sharply, by 1.15 per cent per year, over the same period. Between 1901 and 1941 per-capita food grain output declined by a dramatic 24 per cent. The share of modern inputs (fertiliser, pesticide, electricity, diesel) in total input in agriculture in 1950 was a meagre 1.71 per cent, a share which was to rise to over 30 per cent in the early 1980s. No wonder, at independence India was faced with acute food shortage creating near famine conditions in many areas. Between 1946-53 about 14 million tons of food grains worth Rs.10,000 million had to be imported, seriously affecting India's planning programme.

* The chapter is based on my chapters in Bipan Chandra, Mridula Mukherjee and Aditya Mukherjee, *India After Independence*, Penguin, New Delhi, 2000, particulary Chapters 25 – 31.

The greatest damage, of course, was done to Indian industry. India, the world's largest exporter of textiles in the pre-British era, became a major importer of textiles and faced all round 'de-industrialisation' under colonialism. Despite a major effort made by Indian entrepreneurs in the sphere of industry in the twentieth century, especially since 1914, at independence India's industrial capacity was woeful. In 1947 only about 2 % of the labour force was employed in modern factory industry. Even the narrow industrial structure was distorted. At independence India was totally dependent on the advanced countries for its requirements of capital goods of equipment and machinery. Equally important was the near total dependence on foreign technology.

The situation regarding health, education and other social indicators was also very poor. The average life expectancy at independence was barely thirty-two years! The overwhelming majority of the people, about 84 per cent, were illiterate. The availability of modern scientific and technical education was pitifully limited.

Finally, the colonial economy as a whole had acquired a distorted or disarticulated character. Sectors of the economy had developed colonial linkages with the metropolis rather than to each other, i.e., inter-sectoral exchanges within the economy declined. For example, the link and balance between indigenous agriculture and industry was destroyed. The structural distortions made the future transition to self-sustained growth much more difficult.

It is this legacy of colonial structuring which independent India had to undo so that conditions could be created for rapid industrial development. The task of attempting a modern industrial transformation, two hundred years after the first industrial revolution and nearly hundred years after several other countries had industrialised, was a stupendous one. Apart from the handicap created by colonialism and the several built-in disadvantages faced by the late comer, the world political and economic conditions had also changed radically, calling for new innovative strategies if success was to be achieved.

38.2 NEHRU AND THE FIRST THREE PLANS

India was to attempt to break out of its colonial structuring through planned economic development. But this was to be done within a democratic and civil libertarian framework. This was a very challenging and uncharted path with no example from history. All the industrialised countries of the world did not have democracy and civil liberties during the initial period of their transition to industrialism or period of 'primitive accumulation'. India was able to move on this uncharted path helped by the fact that a consensus had emerged among all sections of political opinion in the country that the path of economic development chosen had to be compatible with a functioning democracy.

38.2.1 On the Path of Planned Economy

It was fortunate from the point of view of the potential for success of Indian planning that a consensus had emerged on other critical aspects of the development path to be followed, what we may refer to as the Nehruvian consensus. For example, the Gandhians, the Socialists, the capitalists as well as the Communists (barring brief sectarian phases), were all more or less agreed on the following agenda: a multi-pronged inward oriented strategy of economic development based on self reliance to be adopted; rapid industrialisation based on import substitution including of capital goods industries; prevention of imperialist or foreign capital domination; land reforms involving abolition of zamindari, tenancy reforms, introduction of cooperatives, especially service cooperatives, for marketing, credit, etc.; growth to be attempted along with equity, i.e., the growth model must be reformist with a welfare, pro-poor orientation; positive discrimination or reservation, for a period, in favour of the most oppressed in Indian society: the scheduled castes and tribes; the state to play a central role in promoting economic development including through direct state participation in the production process, i.e., through the public sector, and so on. The last aspect, i.e., the role of the state, needs a bit of further elaboration.

It is to be noted that as early as the late nineteenth century, in the economic thinking of the early nationalists such as M. G. Ranade and Dadabhai Naoroji, the State was assigned a critical role in a strategy for economic development of India. By 1934, N. R. Sarkar, the President of the Federation of Indian Chambers of Commerce and Industry (FICCI), the leading organisation of Indian capitalists, proclaimed: "the days of undiluted laissez-faire are gone for ever." There was in fact a wide consensus emerging around the notion that the role of the state would not only involve the proper use of fiscal, monetary and other instruments of economic policy and state control and supervision over the growth process but would also have to include a certain amount of direct participation in the production process through the public sector. The National Planning Committee set up by the Indian National Congress in 1938, with Nehru as chairperson and a very wide ranging membership, as well as the Indian capitalists' Plan of Economic Development for India (popularly called the Bombay Plan) brought out in 1944-45 were agreed on the need for a public sector and partial nationalization.

There were however differences between the capitalists and the Left, including Nehru, on what was to be the nature and extent of the public sector. But Nehru very consciously did not push his own position beyond a point unless he could carry a wide section of society with him. Planning under Nehru was to be consensual and not a command performance. This was a critical difference between planning in India and planning in communist Soviet Union or fascist Germany.

38.2.2 Five Year Plans

It was this perspective with which the Planning Commission (established on 15 March 1950) functioned. The First Plan (1951-56) essentially tried to complete projects at hand and to meet the immediate crisis situation following the end of the War. Independence had come along with the dislocation caused by the partition, including the massive problem of refugees resulting from the largest mass migration in history in the space of a few years. It is with the Second Plan (1956-61) that the celebrated Nehru-Mahalanobis (Prof. P. C. Mahalanobis played a leading role in drafting the Second Plan) strategy of development was put into practice and it was continued in the Third Plan (1961-66). A basic element of this strategy was the rapid development of heavy and capital goods industries in India, mainly in the public sector. (Three steel plants were set up in the public sector within the Second plan period.) Import substitution in this area was seen as an imperative not only because it was seen as critical for self-reliance and reduction of external dependence but also because it was assumed that Indian exports could not grow fast enough to enable the import of the necessary capital goods and machinery- an export pessimism which has been criticised in later years, though it was quite commonly accepted at that time. The model also saw some foreign aid and investment as essential in the initial phase to finance the massive step up in investment though the objective was to do away with this need as soon as possible by rapidly increasing domestic savings. Another critical element of the Nehru- Mahalanobis strategy was the emphasis on growth with equity and hence the issue of concentration and distribution in industry and agriculture was given a lot of attention though perhaps not with commensurate success. It may be added that the strategy did not posit equity against growth but assumed that higher growth enabled higher levels of equity and was critical for meeting the challenge of poverty and therefore gave utmost attention to rapid growth.

Considerable progress on several fronts was made during the first phase of the development effort spanning the first three Five-Year Plans, i.e., by the mid-1960s. The overall economy performed impressively compared to the colonial period. India's national income or Gross National Product (GNP) grew at an average rate of about 4 per cent per annum over the first three plans, between 1951and 1964-65 (omitting the last year of the third plan, i.e., 1965-66, which saw an unprecedented drought and a war). This was roughly four times the rate of growth achieved during the last half century of colonial rule. It was higher than what Japan could achieve in a comparable period of its development between 1893 to 1912.

Stepping up the rate of growth required a substantial increase in the investment rate. The domestic savings and total investment in the Indian economy which were both 5.5 per cent of national income in 1950-51, rose to savings of 10.5 per cent and investment of 14 per cent in 1965 -66. It has been estimated that the total investment in 1965-66 was nearly five times the 1951-52 level in nominal terms and more than three times in real terms.

Agrarian Sector and Industry

On the agrarian front, the comprehensive land reform measures initiated soon after independence, the setting up of a massive network for agricultural extension and community development work at the village level, the large infrastructural investment in irrigation, power, agricultural research, etc., had created the conditions for considerable agricultural growth in this period. During the first three plans (again leaving out 1965-66), Indian agriculture grew at an annual rate of over 3 per cent, a growth rate 7.5 times higher than that achieved during the last half-century or so of the colonial period. The growth rates achieved compared very favourably with what was achieved by other countries in a comparable situation, say China or Japan. For example, Japan achieved a growth rate of less than 2.5 per cent between 1878 - 1912 and an even lower growth rate till 1937. What was particularly creditable was that India, unlike most other countries (such as China, Japan, Korea, Taiwan, Soviet Union, Britain, etc.) achieved its land reforms and agricultural growth in the context of civil liberties and a modern democratic structure.

Industry, during the first three plans, grew even more rapidly than agriculture, at a compound growth rate of 7.1 per cent per annum between 1951 and 1965. The industrial growth was based on rapid import substitution initially of consumer goods and particularly since the Second Plan of capital goods and intermediate goods. The emphasis on the latter since the Second Plan was reflected in the fact that 70 per cent of plan expenditure on industry went to metal, machinery and chemical industries in the Second Plan and 80 per cent in the Third Plan. Consequently the three fold increase in aggregate index of industrial production between 1951 and 1969 was the result of a 70 per cent increase in consumer goods industries, a quadrupling of the intermediate goods production and a ten-fold increase in the output of capital goods. A stupendous growth of the capital goods sector by any standards. Table 1 reflects this growth pattern.

Table 1

Indices of industrial production in India: 1951-1979

1960 = 100 (for 1951-1971); 1970 =100 (for 1978-79)

Industrial Group	1951	1961	1971	1978-79
General	55	109	153	186
Textiles	80	103	106	110
Basic Metals	47	119	209	144
Machinery	22	121	373	208
Electrical Machinery	26	110	405	162

Source: India: *A Reference Annual,* GOI, New Delhi, 1980, p. 312 Cited in B.L.C. Johnson, *Development in South Asia*, Penguin, Harmondsworth, 1983, p. 136.

Infrastructure and Other Social Needs

Apart from industry and agriculture, the early planners gave utmost priority to the development of infrastructure, including education and health, areas greatly neglected in the colonial past. The average actual plan expenditure during each of the first three Plans on Transport and Communication was about Rs 13 billion, accounting for an average of about 26 per cent of the total plan expenditure in each plan. The corresponding figures for Social/ Community services and Power were Rs 9.4 billion and 19.9 per cent and Rs 6.16 billion and 10.6 per cent respectively. Over time, Plan investment in these areas (and in irrigation) was to prove critical both in stepping up private investment and improving its productivity, as was seen so clearly in the case of agriculture with the coming in of the Green Revolution.

Table 2

Growth in infrastructure, health and education

Item	**Units**	1950-1	1960-1	1965-6	Percentage change between 1950-51 to 1965-6
Electricity: Installed Capacity	Million kw.	2.3	5.6	10.2	393.5
Town and Villages Electrified	Thousands	3.7	24.2	52.3	1,313.5
Railways: Freight Carried	Million tonnes	93	156	205	120.4
Surfaced Roads	Thousand Kilometers	156	235	284	82
Hospital beds	Thousands	113	186	300	165.5
Enrolment in Schools	Millions	23.5	44.7	67.7	188.1
Technical Education: Engineering and Technology (admission capacity)					
(a) Degree level	Thousands	4.1	13.8	24.7	502.4
(b) Diploma level	Thousands	5.9	25.8	49.9	745.8
Population	Millions	357	430	490	37.3

Source: J. Bhagwati and P. Desai, *India: Planning for Industrialisation,* OUP, London, 1970, p. 74.

Table 2 shows the rapid per capita increase in the availability of some of the infrastructural and social benefits as they grew several times faster than the population. In 1965-66, as compared to 1950-51, installed capacity of electricity was 4.5 times higher, number of town and villages electrified was 14 times higher, hospital beds 2.5 times higher, enrollment in schools was a little less than 3 times higher and very importantly admission capacity in technical education (engineering and technology) at the degree and diploma levels was higher by 6 and 8.5 times, respectively. This when population had increased only by a little over one third over the same period.

Science and Technology

Jawaharlal Nehru and the early Indian planners were acutely aware of India's backwardness in science and technology (an area left consciously barren in the colonial period) and therefore made massive efforts to overcome this shortcoming. Nehru's 'temples of modern (secular) India' consisted not only of steel and power plants, irrigation dams, etc., but included institutions of higher learning, particularly in the scientific field. During the First Plan itself, high powered National Laboratories and Institutes were set up by the Council of Scientific and Industrial Research for conducting fundamental and applied research in each of the following areas: Physics, Chemistry, Fuel, Glass and Ceramics, Food Technology, Drugs, Electro-chemistry, Roads, Leather and Building. In 1948 the Atomic Energy Commission was set up, laying the foundations of the creditable advances India was to make in the sphere of nuclear science and related areas. This was in addition to the unprecedented increase in the educational opportunities in science and technology in the universities and institutes. National expenditure on scientific research and development kept growing rapidly with each plan. For example, it increased from Rs. 10 million in 1949 to Rs. 4.5 billion in 1977. Over roughly the same period the stock of India's scientific and technical manpower increased more than 12 times from 190 thousand to 2.32 million. A spectacular growth by any standards, placing India, after the dissolution of the Soviet Union, as the second country in the world in terms of the absolute size of scientific and technical manpower. A major achievement despite the fact that the quality of education in general, and particularly in the university system, has tended to deteriorate in recent years and there is massive brain drain, mainly to the US, of a significant part of the best talent produced in the country. Also, it is an achievement of considerable significance, as increasingly today 'knowledge' is becoming the key factor of production and there is a global awareness of the necessity to focus on education and human resource development. That India can even think of participating in the globalisation process in today's world of high technology, with any degree of competitiveness and equality, is largely due to the spadework done since independence, particularly the great emphasis laid on human resource development in the sphere of science and technology.

Many of the remarkable achievements of the Nehru period were built upon and carried forward in subsequent years. However, some structural problems mainly born out of excessive and faulty state intervention, which had begun to emerge in the Nehruvian period but grew alarmingly in later years needed to be urgently dealt with. The sections below will briefly outline the progress in the post Nehru years, the structural problems requiring change and the nature of reforms brought in to deal with the problems as well as to avail of global opportunities.

38.3 GROWTH IN THE POST NEHRU ERA : 1965-1990

The period from the mid-1960s to the end-1980s was a period of considerable achievement for the Indian economy especially if they are evaluated keeping in view a series of formidable internal and external shocks witnessed during these years.

The Indian economy was in the grips of a massive crisis in many respects by the mid-1960s, which rapidly changed India's image from a model developing country to a 'basket case'. Two successive monsoon failures of 1965 and 1966, superimposed on an agriculture which was beginning to show signs of stagnation, led to a fall in agricultural output by 17 per cent and foodgrain output by 20 per cent. The rate of inflation which was hitherto kept very low (till 1963 it did not exceed 2 per cent per annum) rose sharply to 12 per cent per annum between 1965 and 1968 and food prices rose nearly at the rate of 20 per cent per annum. The inflation was partly due to the droughts and partly due to the two wars of 1962 (with China) and 1965 (with Pakistan) which had led to a massive increase in defence expenditure. Following the crisis of the mid 1960s there was the 1971 war with Pakistan, the genocide in East Pakistan (Bangladesh) resulting in the huge burden of over ten million refugees from that region (nearly half the population of a country like Australia!) taking shelter in India, two droughts of 1972 and 1974, the major oil shock of 1973 involving a quadrupling of international oil prices and hence of cost of oil imports, the oil shock of 1979 when oil prices doubled, the disastrous harvest of 1979-80 caused by the worst drought since independence and the widespread successive droughts of 1987 and 1988!

Concerted efforts were made after the mid 1960s primarily under Indira Gandhi's leadership to, inter alia, improve the balance of payments situation, create food security, introduce anti-poverty measures and reduce dependence on imports for critical inputs like oil. These enabled India to weather the impact of the droughts, war and the oil shocks without getting into a debt crisis and a recessionary spin as happened in the case of a number of developing countries, especially in Latin America in the 1980s, and without serious famine conditions, leave alone famine deaths by the millions that occurred in Communist China in the late 1950s.

On the **food** front the situation improved rapidly. The adoption of the 'Green Revolution' strategy of introducing a package of high yield variety (HYV) seeds, fertilisers and other inputs in a concentrated manner to some suitable select areas paid immediate dividends in creating food security and poverty reduction. Between 1967-68 and 1970-71 foodgrain production rose by 35 per cent. Net food imports fell from 10.3 million tonnes in 1966 to 3.6 million in 1970, while food availability increased from 73.5 million tonnes to 89.5 million tonnes over the same period. Food availability continued to increase sharply to 110.25 million tonnes in 1978 and 128.8 million tonnes in 1984 and food stocks had crossed the 30 million tonnes mark by the mid 1980s, putting an end to India's 'begging bowl' image and creating considerable food security even in extreme crisis situations. For example, the economy was able to absorb the massive successive droughts of 1987-88 without undue pressure on prices of food or imports.

Apart from food **self-sufficiency**, certain other features emerged in the Indian economy after the crisis of the mid-1960s that pointed towards a greater autonomy of the Indian economy and increased **self-reliance**. Net aid as a proportion of Net National Product (NNP), which had peaked to an average of 4.22 per cent during the Third plan (the last few crisis years of the plan partly accounting for this high rate), came down to 0.35 in 1972-73 and rose only slightly after the 1973 oil crisis, but yet averaged not more than 1 per cent of NNP till 1977-78. The debt-service ratio, i.e., the annual outflow of interest and repatriation of principal due to existing debt as a proportion of exports of goods and services, fell to a low and easily manageable 10.2 per cent in 1980-81 from an estimated 23 per cent in 1970-71 and 16.5 per cent in 1974-75. Further, the volume of foreign private investment remained marginal and the ratio of foreign savings to total investment fell and remained low throughout the 1970s, at a time when the rates of domestic savings and investment increased rapidly. From an average savings rate of 10.58 per cent and a rate of Gross Domestic Capital Formation or investment of 11.84 per cent in the 1950s, the savings and investment rates nearly doubled to 21.22 per cent and 20.68 per cent respectively between 1975-76 and 1979-80. Between 1990-91 and 1995-96 the rates of gross domestic savings and capital formation were 23.8 and 25.35 respectively, rates comparable to several high growth economics.

Further, India moved a long way in reducing her near total dependence on the advanced countries for basic goods and capital equipment, which was necessary for investment or creation of new capacity. At independence, to make any capital investment, virtually the entire equipment had to be imported. For example, in 1950, India met 89.8 per cent of its needs for even machine tools through imports. In contrast to this, the share of imported equipment in the total fixed investment in the form of equipment in India had come down to 43 per cent in 1960 and a mere 9 per cent in 1974, whereas the value of the fixed investment in India increased by about two and a half times over this period. In other words, by the mid 1970s, India could meet indigenously more than 90 per cent of her equipment requirements for maintaining her rate of investment. This was a major achievement, and it considerably increased India's autonomy from the advanced countries in determining her own rate of capital accumulation or growth. It was this, and the food security India was able to achieve once the process of the Green Revolution took off, which explains India's ability to retain an independent foreign policy through the thick of the cold war withstanding enormous external pressures.

A new feature of the 1980s was the phenomenal increase in new **stock market** issues, the stock market thus emerging as an important source of funds for industry. It has been estimated that in 1981 the capital market accounted for only 1 per cent of domestic savings, whereas by the end of the 1980s this proportion had increased by about seven times. The new stock issue in 1989 was Rs. 6,500 crores, which was about 7.25 per cent of Gross Domestic Savings of 1989-90. Another estimate shows that in 1990 Indian companies raised an unprecedented Rs. 12,300 crores from the primary stock market.

The early eighties also saw a highly successful breakthrough in the **import substitution programme** for oil under the supervision of the ONGC (Oil and Natural Gas Commission), a public sector organisation. The large loan received from the IMF in this period helped this effort considerably. In 1980-81, domestic production of oil was 10.5 million tonnes and imports 20.6 million tonnes, the oil import bill taking up 75 per cent of India's export earnings! With new discoveries at the Bombay High oil fields, by the end of the Sixth Plan (1980-85), the target of indigenous production of 29 million tonnes was achieved. As a result, in 1984-85, the net import of oil and oil products was less than a third of the domestic consumption and the oil import bill was also down to a third of export earnings.

By the mid 1970s, the **industrial growth** rate also started picking up from a low of about 3.4 per cent between 1965-75 to about 5.1 per cent between 1975-85. If the crisis year of 1979-80 was omitted, then the industrial growth rate during 1974-75 to 1978-79 and 1980-81 to 1984-85 was about 7.7 per cent per annum. In the 1980s as a whole the industrial growth rate maintained a healthy average of about eight per cent per year. Again it was in the 1980s that the barrier of the low, so-called 'Hindu rate of growth' of 3 to 3.5 percent that India had maintained over the previous two decades was broken and the economy grew at over 5.5 per cent.

38.4 STRUCTURAL CONSTRAINTS AND THE NEED FOR REFORM

While on the one hand the Indian economy in the 1980s seemed to be doing quite well, on the other hand there were certain long-term structural weaknesses building up which were to all add up to a major crisis by 1991 when the country was on the verge of defaulting. It is this crisis which brought home to the country the immediate necessity of bringing about structural adjustment and economic reform.

38.4.1 Constraints

Broadly there were three sets of problems which had gathered strength in the Indian economy over time and which needed urgent reform.

First, the excessive state intervention in the so called 'licence-quota raj' was leading to the creation of tremendous inefficiency. Prolonged protection to Indian industry from imports by following the import substituting industrialisation (ISI) strategy led to the killing of external competition. Similarly, industrial licensing effectively prevented free internal competition. In the absence of internal and external competition Indian industry grew very inefficient. Other regulations such as the MRTP Act further inhibited industrial development. The Act went against the basic principle of economies of scale, which is at the heart of capitalist development (or for that matter of socialist production). It also punished efficiency, as any company, which expanded due to efficient production, good management and research and development (R & D), would face severe restrictions, including refusal of permission to increase capacity once it crossed a prescribed limit. Again, reserving certain areas for small-scale industries meant excluding these areas from the advantages of scale and larger resources for R & D activities. This made the sector often internationally uncompetitive, leading to India losing out to its competitors in many areas. Also, the policy towards small-scale industry forced entrepreneurs in the reserved areas to remain small, as any expansion as a result of efficient and profitable functioning would deny the enterprise the special incentives and concessions. This inhibited efficiency and innovation in this sector.

Second the large public sector in India, which controlled 'the commanding heights' of the economy, also began to emerge as a major source of inefficiency. The early emphasis on the public sector was critical to India's industrial development. It is the public sector which entered the core areas, diversified India's industrial structure, particularly with regard to capital goods and heavy industry, and reduced India's dependence on foreign capital, foreign equipment and technology. However, over time, the political and bureaucratic pressure on the public sector undertakings gradually led to most of them running at a loss. They were overstaffed, often headed by politicians who had to be given sinecures, became victims of irresponsible trade unionism and were unable to exercise virtually any efficiency accountability on their employees. State run utilities like Electricity Boards and Road Transport Corporation were notorious for incurring enormous losses. Apart from rampant corruption and lack of accountability, these enterprises, under populist pressure, often charged rates that did not cover even a small fraction of the actual costs. The free distribution of electricity being an extreme case in point.

All these factors led to the investment efficiency in India being very low or the capital output ratio being very high. A 1965 study shows that the public sector

Heavy Electrical Limited was set up in Bhopal with a capital output ratio of between 12 to 14 - with no questions being asked or enquiry set up! Though this is an extreme case, estimates for the economy as a whole show that the capital used per unit of additional output or the incremental capital output ratio (ICOR) kept rising, it being a little over 2 during the First Plan and had reached 3.6 during the Third Plan. According to one estimate between 1971 and 1976 the ICOR had touched a high of 5.76. This explains why despite substantial increases in the rate of investment, as shown above, there was an actual decrease in the overall growth rates of aggregate output or GDP between the 1950s and 1970s. The ICOR started declining in the 1980s though it still remained around 4 in the 1990s. Even during the 1980s, one estimate shows that the (simple) average rate of financial return on employed capital in public sector enterprises was as low as 2.5 per cent. Actually, the rate of return was much lower if the 14 petroleum enterprises were excluded, as these accounted for 77 per cent of the profits in 1989-90.

Low efficiency or low productivity levels are of critical consequence as economic superiority is established and transfer of surplus from one country to another occurs not through direct political or economic domination but through processes such as unequal exchange occurring between countries with different productivity levels. Economic thinkers of the Left and the Right are agreed on placing the question of productivity at the centre of any national development. In today's context of rapid globalisation, pursuing excessively autarchic policies in search of autonomy (something a section of the Indian Left and the newly discovered Swadeshi path of the Right, such as the RSS, still argues for) may, through fall or stagnation of productivity levels, destroy precisely that autonomy and push the country towards peripheralisation.

This brings us to the third set of weaknesses that emerged in the India economy. It relates to the continuation of the inward oriented developmental path followed by India since independence. India failed to make a timely shift from the export pessimism inherent in the first three plans, a pessimism which, one must recognise, was shared widely by development economists the world over in the 1950s. The failure lay not in adopting the policies that emerged from the wisdom of the 1940s and 1950s but in the inability to quickly react to changes occurring in the international situation and to world capitalism after World War II, particularly since the 1960s and 1970s, and change course accordingly.

38.4.2 Need for Reform

Some of the important changes that needed to be taken cognisance of were, very briefly, the following: First, the nature of foreign capital and multinational corporations was changing. A process of 'internationalisation of production' had started. Multi-national corporations, instead of just looking for markets or sources of raw material, now looked for cheaper production areas. Instead of creating enclaves in the backward countries, which had backward and forward linkages with the home country (this was the typical colonial pattern), they were now bringing in investments which had major multiplier effects on the local economy, including of technology transfer. It became common for multi-national companies to 'source' a large part of the components that went into the final product from all over the developing world and even shift entire production plants to the under-developed countries. Second, along with, and partially as a result of, the above process, there were massive capital transfers between countries, reminiscent of the capital transfers of the 19th century at the height of colonial expansion, but very different in character. The above two processes contributed to the third major international development, that of an unprecedented explosion of world trade. Between the 1950s and 1970s, world output of manufactures increased four times but world trade in manufactures increased ten times. The percentage of world produce that went for export doubled between 1965 and 1990. What is most significant is that while there was a massive increase in global industrial exports, the Third World was able to rapidly increase its share of total industrial exports, especially since the 1970s, from about 5 per cent in 1970 to double the figure in 1983. (See Hobsbawm, 1994, for a brilliant analysis of the changes in world capitalism since World War II.)

The East Asian Miracle, i.e., the rapid industrialisation of the East Asian countries, beginning in the 1960s, which gradually shifted the industrial base of the world from the West to the East, took advantage precisely of these kinds of opportunities of capital and market availability. Japan's example of explosive post-World War II growth was being repeated by South Korea, Taiwan, Singapore, Hong Kong and, more recently, Thailand, Malaysia, China and Indonesia. The four Asian Tigers, South Korea, Hong Kong, Singapore and Taiwan increased their share in world export of manufactures from 1.5 per cent in 1965 to 7.9 per cent in 1990. Even the newly industrialising economies (NICs), Indonesia, Malaysia and Thailand increased their share form 0.1 per cent to 1.5 per cent over the same period.

India did reasonably well till the mid-1960s, basing herself on an inward oriented, import-substitution based strategy. However, she failed to respond adequately to the new opportunities thrown up by the changing world situation despite the availability of the East Asian experience In fact India's share in world exports actually shrunk from about 2.4 per cent in 1948 to 0.42 per cent in 1980, rising to a still paltry 0.6 per cent by 1994. In contrast, South Korea's manufactured exports, which were negligible in 1962, amounted to four times those of India by 1980. The volume of India's manufactured exports in 1980-81 was 1/2 that of China, 1/3 of Brazil and 1/4 of South Korea.

India was thus unable to use the opportunities provided by the changed world situation, the new phase of globalisation, to rapidly industrialise and transform its economy, increase income levels and drastically reduce poverty levels, as did many of the East Asian countries.

The fourth set of problems, which overcame the Indian economy, was primarily the result of certain political imperatives, which related to the manner in which the Indian state structure and the Indian democratic framework evolved. On the one hand there was the emergence of more and more sections which made strong, articulate demands on state resources and on the other the governments were increasingly unable either to meet these demands fully or diffuse the clamour for them. This resulted in the gradual abandoning of fiscal prudence from about the mid -1970s. This in turn led to a situation where the macroeconomic balance,(such as balance between government revenue and expenditure or balance between exports of goods and services and the liabilities caused by imports of goods and services as well as foreign borrowings) which was maintained in India (unlike many other developing countries) with great caution for the first 25 years or so after independence, was being slowly eroded.

The gradual erosion of fiscal prudence was reflected in government expenditure rising consistently, mainly because of the proliferation of subsidies and grants, salary increases with no relationship to efficiency or output, overstaffing, and other 'populist' measures such as massive loan waivers or making huge budgetary allocations which were aimed at winning over support of a particular section of society rather than at achieving best overall development.

While the response to the mid-'60s crisis was fiscal and balance of payments caution, relaxation of fiscal discipline became rampant after 1975 and particularly during the Janata regime of 1977-79. The food subsidies doubled between 1975-76 and 1976-77 from Rs. 2.5 billion to Rs. 5 billion. The fertiliser subsidy multiplied ten times from Rs. 0.6 billion in 1976-77 to Rs. 6.03 billion in 1979-80. The export subsidy multiplied by about 4 1/2 times from Rs. O.8 billion to Rs. 3.75 billion between 1974-75 to 1978-79. During 1977 -79 procurement prices for foodgrains were increased without corresponding increases in issue prices, taxes on a wide range of agricultural inputs were decreased and budgetary transfers to loss making public sector units increased. In fact, the 1979 budget has been described by eminent economists Vijay Joshi and I. M. D. Little (1994, p.58) as a "watershed marking the change from previous fiscal conservatism."

The fiscal profligacy continued through the 1980s and particularly during the second half of the 1980s reaching absurd limits where, e.g., the V.P.Singh-led National Front Government that came to power in 1989 announced a loan waiver for the farmers which would cost the exchequer more than Rs. 100 billion. The direct subsidies from the central budget on only food, fertiliser and exports in 1980-81 have been estimated to exceed Rs. 15 billion, an amount representing nearly half of the total gross capital formation or investment in manufacturing in the public sector that year! While there was this explosive growth of Government spending, the savings generated by the Government or public sector kept falling with their growing losses.

The result of fiscal profligacy was that the consolidated Government (centre and states) fiscal deficits or the revenue and expenditure gap rose sharply from 4.1 per cent of GDP in 1974-75 to 6.5 per cent in 1979-80, 9.7 per cent in 1984-85, peaking at 10.4 per cent in 1991. Governments in this period tended to seek ways and means of increasing their domestic and foreign borrowing to meet this deficit rather than either trying to increase government savings or reduce government expenditure.

The growing government saving-investment gap and the fiscal deficit had a negative impact on the balance of payments and debt situation, as the Government resorted to heavy borrowing to meet this gap. From a situation of balance of payments surplus on the current account in 1977-78 of $ 1.5 billion (1.4 per cent of GDP), by 1980-81 there was a deficit in the current account to the tune of $ 2.9 billion (1.7 per cent of GDP). The deficit increased to $ 3.5 billion (1.8 per cent of GDP) in 1984-85 and rose very sharply thereafter to $ 9.9 billion (3.5 per cent of GDP) in 1990-91.

The deteriorating fiscal and balance of payments situation had led to a mounting debt problem, both domestic and foreign, reaching crisis proportions by the end of the 1980s. Total Government (centre and state) domestic debt rose from 31.8 per cent of GDP in 1974-75 to 45.7 per cent in 1984-85 to 54.6 per cent in 1989-90. The foreign debt situation also became very precarious with debt rising from $23.5 billion in 1980-81 to $37.3 billion in 1985-86 to $83.8 billion 1990-91. The debt service ratio (i.e., payment of principal plus interest as a proportion of exports of goods and services) which was still a manageable 10.2 per cent in 1980-81 rose to a dangerous 35 per cent in 1990-91.

India's foreign exchange reserves fell from $ 5.85 billion in 1980-81 to $ 4.1 billion in 1989-90, and in the next year they fell drastically by nearly half to $ 2.24 billion in 1990-91, enough only for one month's import cover. The Iraqi invasion of Kuwait in August 1990, leading to an increase in oil prices and a fall in Indian exports to the Middle East or Gulf region, partly contributed to this alarming foreign exchange situation. India's international credit rating was sharply downgraded and it was becoming extremely difficult to raise credit abroad. In addition NRI (non-resident Indian) deposits in foreign exchange began to be withdrawn rapidly. In such a situation, where foreign lending had virtually dried up, the government was forced to sell 20 tonnes of gold to the Union Bank of Switzerland in March 1991 to tide over its immediate transactions. By July 1991 foreign exchange reserves were down to a mere two weeks import cover despite loans from the IMF. The country was at the edge of default.

This is the situation (June 1991) in which the minority Congress government of Narasimha Rao took power and with Manmohan Singh as finance minister one of the most important economic reforms since independence were attempted.

38.5 ECONOMIC REFORMS SINCE 1991: LIBERALISATION AND GLOBALISATION

The long-term constraints building up over a few decades that were debilitating the Indian economy combined with certain more recent and immediate factors to lead to a massive fiscal and balance of payments crisis, climaxing in 1991. The crisis pushed India into initiating a process of economic reform and structural adjustment.

The need for reform had been recognised early enough in India. Manmohan Singh Jagdish Bhagwati (1970&1994) and others had been arguing for it since the1960s and 70s. Efforts at reform and liberalisation began since the 1980s if not earlier, but, its comprehensive implementation could not occur for various reasons. Governments, especially when in a vulnerable situation (e.g., Rajiv Gandhi after the Bofors scandal, Indira Gandhi with the Punjab crisis, and later even Narasimha Rao following the destruction of the Babri-Masjid), were extremely wary of initiating or sustaining reforms which would involve introducing unpopular measures like attempts to regain fiscal discipline, change in labour laws, etc., steps which in the initial phase were bound to be painful. Also, there was (and still remains) persistent opposition to reform from vested interests such as the bureaucracy and even sections of business who benefited from the existing system of controls, using them to earn a sort of 'rent'. Last and certainly not the least, a strong ideological opposition from the orthodox Left, strangely oblivious to the changing global reality, continued to play a role in obstructing reform.

The crisis in 1991, with the country at the edge of default, enabled the Narasimha Rao government to break through the traditional mindset and attempt an unprecedented comprehensive change at a time when both the ideological opposition and the resistance of the vested interests was at a weak point. Thus, though late, nearly thirteen years after China changed course, a programme of economic reform was initiated in 1991. One reason why the shift took so long and, even when it took place, was not as sharp a turnaround as it was in China in 1978 or the Soviet Union after the mid 1980s was that in a democracy the change from one kind of societal consensus (such as the Nehruvian consensus) to a new consensus (say around reforms) is a process and not an event, and consequently it has its own dynamic, very different from that operating in a non-democratic or totalitarian society. While arriving at a democratic consensus is more time consuming, once a consensus is arrived at it is far more durable or stable than changes brought about by force from the top.

The process of reforms started in 1991 involved, inter alia, an immediate fiscal correction; making the exchange rate more realistically linked to the market (the Rupee underwent about a 20 per cent devaluation at the very outset); liberalisation of trade and industrial controls like freer access to imports, a considerable dismantling of the industrial licensing system and the abolition of MRTP; reform of the public sector including gradual privatization; reform of the capital markets and the financial sector; removing a large number of the restrictions on multinational corporations and foreign investment and in fact welcoming them, particularly foreign direct investment, and so on. In short it was an attempt to free the economy from stifling internal controls as well as equip it to participate in the worldwide globalisation process to its advantage.

The record of the first few years of reform was creditable by any standards, though a lot of problems and challenges still remained. India performed one of the fastest recoveries from a deep macroeconomic crisis. Moreover, the process of structural adjustment, particularly the fiscal reining-in (done initially), was achieved with relatively minimal pain - without it setting off a prolonged recessionary cycle leading to massive unemployment and deterioration of the condition of the poor as was feared and as occurred in the case of several other economies in a similar situation attempting structural adjustment.

For example, the growth rate of India's Gross Domestic Product (GDP) which had fallen to a paltry 0.8 per cent in the crisis year of 1991-92 recovered quickly to 5.3 per cent by 1992-93 and rose further to 6.2 per cent in 1993-94 despite the major disturbances in 1992-93 triggered off by the Ayodhya crisis. More important, over the next three years, the Indian economy averaged an unprecedented growth rate of over 7.5 per cent, a rate closer to the high performers of East Asia than it had ever been before. Despite the crisis and the necessary structural adjustment, the Eighth Plan (1992-1997) averaged a growth rate of nearly 7 percent (6.94), higher, and on a more sustainable basis, than the Seventh Plan (1985-1990) average of 6 percent. Gross Domestic Savings averaged over 23 percent between 1991 and 1997, higher than the Seventh Plan average of 20.6 per cent. Gross Domestic Capital formation (Investment) and Gross Domestic Fixed Capital Formation between 1992 to 1997 also maintained a respectable average of 25.2 per cent and 22.3 per cent of GDP respectively, considerably higher than the Seventh Plan average of 21.8 and 19.8 percent.

Industrial production, which showed a dismal, less than one per cent, growth rate in 1991-92 (it was negative in manufacturing), picked up to 2.3 per cent in 1992-93 and 6 per cent in 1993-94, peaking at an unprecedented 12.8 per cent during 1995-96. The capital goods sector, which demonstrated negative growth rates for a few years, bounced back to nearly 25 per cent growth in 1994-95, allaying early fears that import liberalisation would hit the domestic capital goods industry adversely. The small-scale sector too grew faster than overall industrial growth, suggesting that abolition of MRTP did not have an adverse effect on it and perhaps encouraged its growth. Agriculture, too, after recording a fall in 1991-92, picked up the following year and by and large maintained till 1996-7 the high rate of growth of over three per cent which it had been experiencing for some years.

The Central Government fiscal deficit, which had reached 8.3 per cent of GDP in

1990-91, was reduced and averaged roughly 6 per cent between 1992-97. The important thing was that out of the total fiscal deficit of 5.2 per cent in 1996-97, 4.7 per cent was accounted for by interest payments which was a liability emanating from part fiscal laxity. The primary deficit, i.e., fiscal deficit net of interest payments, which represents current fiscal pressures or overspending was only 0.6 per cent in 1996-97, systematically brought down from 4.3 per cent of GDP in 1990-91 and 2.9 per cent in 1993-94.

The external sector also showed considerable improvement. Exports, which registered a decline of 1.5 per cent in dollar terms during 1991-92, recovered quickly and maintained an average growth rate of nearly 20 per cent between 1993-1996. Very significantly, India's self reliance was increasing to the extent that a considerably larger proportion of imports were now paid for by exports, with the ratio of export earnings to import payments rising from an average of 60 per cent in the 1980s to nearly 90 per cent by the mid 1990s. The current account deficit in balance of payments, which had reached an unsustainable 3.2 per cent of GDP in 1990-91, was brought down to 0.4 per cent in 1993-94 and rose since then to 1.6 per cent in 1995-96. Yet the average deficit between 1991-92 and 1997-98 was about 1.1 percent, significantly lower than the Seventh Plan (1985-90) average of about 2.3 per cent. The foreign exchange reserves (including gold and SDRs) had grown to a respectable $ 30.4 billion at the end of January 1999, providing cover for about 7 months of imports as compared to a mere two weeks cover in July 1991.

The debt situation has also started moving away from a crisis point. The overall external debt/GDP ratio for India fell from a peak of 41 per cent in 1991-92 to 28.7 per cent in 1995-96. The debt service ratio also fell from the peak of 35.3 per cent in 1990-91 to 19.5 per cent in 1997-98. It is however still quite high compared to China, Malaysia and South Korea, who all had (till 1997) debt service ratios below 10 per cent.

Reforms and liberalisation of the stock market since the 1980s and particularly after 1991 produced dramatic results. The total market capitalisation on the Indian stock markets as a proportion of GDP rose from a mere 5 per cent in 1980 to 13 per cent in 1990 and, following further reforms since 1991, it rose rapidly to 60 per cent of GDP by the end of 1993. By 1995 the Indian stock market was the largest in the world in terms of the number of listed companies - larger even than the US. The amount of capital Indian companies could raise in the primary market in India increased from Rs 929 million in 1980 to Rs 2.5 billion in 1985 and Rs 123 billion in 1990. By 1993-4 the figure had reached Rs 225 billion - a nearly 250 times increase since 1980. (Ajit Singh, 1998)

The encouragement to foreign investment bore fruit with foreign direct investment (FDI) increasing at nearly 100 per cent per year between 1991 to 1996, it being $ 129 million in 1991-92 and $2.1 billion in 1995-96. Total foreign investment including portfolio investment increased from $ 102 million in 1990-91 to $ 4.9 billion in 1995-96. Considerable improvement no doubt but yet a far cry from what was being achieved by the East Asian countries. China alone had been absorbing more than $ 30 billion of foreign direct investment every year for some years, the figure for 1996 being $ 40.8 billion. One positive sign however was that one of the most stubborn mind sets - the xenophobia about foreign capital - seems to have been eroded, with the Common Minimum Programme (CMP) of the coalition government (following the defeat of the Congress in 1996), to which even the Communists were a party, desiring that the foreign direct investment (FDI) in India should rise to $ 10 billion per year. However, the danger emanating from the relatively volatile nature of foreign portfolio investments, with the possibility of their sudden withdrawal (as happened in Mexico and more recently in south- east Asia) due to often unpredictable extraneous factors, was understood by successive Governments and efforts made to control short-term capital inflows and capital flight.

Critics of reform, mainly from the orthodox Left, have made the charge that reform was anti-poor. Studies of a large number of countries have shown that barring a few exceptions, rapid economic growth has been associated with fall in poverty levels. India too witnessed significant fall in poverty levels with the relatively faster economic growth of the 1980s. The proportion of population below the poverty line (the poverty ratio) fell from 51.3 per cent in 1977-78 to 38.9 per cent in 1987-88. Countries like China and Indonesia, which had much higher poverty ratios of 59.5 and 64.3 in 1975 compared to India's 54.9 in 1973-4, were able to reduce their poverty levels to much below India's in the span of twenty years. These countries maintained a much higher rate of growth than India during this period and their poverty ratios had fallen dramatically to 22.2 and 11.4 respectively by 1995, while India's had fallen only to 36 by 1993-94. (Economic Survey 1998-99, Government of India, Tables 10.6 and 10.7, p.146.)

To the extent, therefore, that the economic reforms were designed to put India on a higher growth path, it would be expected that poverty levels would decline as well. The key question remaining was what would be the impact on poverty in the transitional phase, especially when the necessary stabilisation had to take place with the attempts to improve the balance of payments position and reduce the fiscal deficit, leading to a possible fall in Government expenditure. India's initial stabilisation programme was said to be "extraordinarily successful" causing "remarkably little suffering" when "compared with most other countries, which were forced to effect a large and rapid reduction in their current external account deficits." (Joshi and Little, 1996, pp. 222,225.) Calculations based on several different indicators of poverty show that poverty, mainly rural poverty, showed a significant rise only in 1992-93 and its causation was linked mainly to a drought and fall in foodgrain output in 1991-92, leading to a rise in food prices, and very weakly to the stabilisation programme. Even this was perhaps avoidable to a great extent and the government's failure in not anticipating the situation and maintaining expenditure on rural employment programmes, and its not refraining from making any cuts (in real terms, there being a nominal increase) in the anti- poverty Social Services and Rural Development (SSRD) expenditure in 1991-92 to achieve fiscal stabilisation, has been criticised even by the supporters of reform. However, all the poverty indicators showed that by 1993-94 there was much improvement in the poverty situation. The poverty levels, both rural and urban, were significantly lower in 1993-94 than in 1992, by nearly six percentage points, and were lower than the pre-reform average of the five years 1986-87 to 1990-91. (Tendulkar, 1998, Tables 12.1, 12.2, 12.3, pp.290-294.) Thus it may be noted that the stabilisation under the reforms had little negative impact if any on poverty levels. Other aspects of structural reform, it is generally agreed, do not threaten the poor and in fact would improve their condition by releasing the full growth potential of the economy.

The improvement in the poverty situation was helped by the fact that the government increased the overall expenditure on Social Services and Rural Development since 1993-94 - from 7.8 per cent of total Government (Central) expenditure in 1992-93 to an average of nearly 10 per cent between 1993 and 1998. Real agricultural wages, which had decreased by 6.2 per cent in 1991-92, grew in the next two years at over 5 per cent per year and had by 1993-4 surpassed the pre-reform level. After the low of 1991-2, additional employment generated in the total economy rose to 7.2 million in 1994-95, averaging about 6.3 million jobs every year between 1992-3 and 1994-95, considerably higher than the average annual increase of 4.8 million in the 1980s. Moreover, inflation, which hurts the poor the most, was kept under control. The annual rate of inflation, which touched a high of 17 per cent in August 1991, was brought down to below 5 per cent in February 1996.

However, though on the whole the reform initiatives look quite successful, there is still a long way to go. Continued political instability, aggravated by no clear majority emerging in parliament of any political party, has made it difficult for any government to move away from populist measures and take tough but necessary decisions. That is why no serious efforts were made to increase public savings and reduce government expenditure and the problem of high fiscal deficits continued.

One of the most dangerous reversals is in the sphere of fiscal deficit, where the primary deficit which had been brought down to 0.6 per cent of GDP in 1996-97 (0.5 percent in the new series data used in Economic Survey of 1998-99) more than doubled to 1.3 per cent in 1997-98 and for the Centre and States together it was estimated to be 2.4 per cent (revised estimate). The selective acceptance of the Fifth Pay Commission recommendations by the United Front (Gujral) government in 1997, whereby the government expenditure on salaries was to increase very sharply without any compensatory savings, as the measures suggested by the Commission to achieve such savings were not accepted, put further pressure on the fiscal deficit. The situation reached a point where, "given the serious fiscal slippage", even the Economic Survey of the Government of India of 1998-99 was constrained to argue, "the time has perhaps come to reconsider the issue of constitutional limits on the deficit." (*Economic Survey*, pp. 11,18, emphasis mine.)

Yet, it is a positive development of enormous significance in a democracy, that there is a broad consensus among all political parties from the Right to the Left (barring the extremists at both ends) that the reform process must continue, a consensus reminiscent of the one around the Nehruvian programme at independence.

The consensus is suggestive of the fact that economic reform or liberalisation did not mean a change of goals set at independence by the Indian people, such as rapid growth, industrialisation, self reliance, removal of poverty and so on. Liberalisation and participation in the globalisation process was not the "final surrender" to international capital or imperialism or the IMF-World Bank combine as has been argued ad infinitum by sections of the orthodox Left. On the basis of the experience with various controls and state intervention at home, of changes occurring in the world such as the collapse of the Socialist world, the new globalisation process after World War II and the experience of various fast growing economies in the recent past, the aspiration towards the same goals set out at independence required an altering of strategy.

However, this is not to say that the earlier 'Nehruvian' strategy was wrong. That strategy had its historical significance. As we saw, it gave the Indian economy a certain depth and spread, increased its bargaining power and independence, and lent the Indian economy and society the dignity it did not possess after the colonial experience. In fact it made the Indian economy capable of participating in the globalisation process without being swamped by it in a manner that the stronger economies in the global framework could establish a dominating or exploitative position vis a vis the Indian economy. However, over time, certain negative features developed, and the world context changed. To achieve the earlier goals, there was now a need for a shift in strategy. To give just one example, if self-reliance and rapid growth in the 1950s required import substitution and restrictions on capital and commodity movements, today capital and technology flows and through that keeping up efficiency or productivity levels is the route to self-reliance and rapid growth.

It is no accident that so many of the very people who created, outlined or subscribed to the earlier Nehruvian strategy over time saw the necessity of reform. We have, for example, apart from Indira Gandhi herself, the radical economist of the Nehruvian era K.N. Raj, the Marxist economist Lord Meghnad Desai, the Nehruvian Narasimha Rao, Left economist Late Sukhamoy Chakravarty, C.H. Hanumantha Rao, Arjun Sengupta and Nobel laureate Amartya Sen, and practicing Communist and Chief Minister of West Bengal for the longest tenure since independence, Jyoti Basu, his successor in the Communist led West Bengal Government, Chief Minister Buddhadeb Bhattacharya all implementing or arguing for economic reform involving liberalisation and participation in the globalisation process, though with different approaches and in varying degrees. Even the BJP, despite the strong resistance of the RSS supported Swadeshi Jagran Manch, is essentially committed to pressing on with reforms.

There is, in other words, a growing recognition in India of the imperative to be responsive to the external changes and internal experience and change strategy so that this great country is able to come into its own and realise its enormous potential rather than fritter away the considerable achievements made since independence. There is today a consensus on reforms involving liberalisation and participating in the globalisation process with the same objectives of equity, growth and independence around which the erstwhile Nehruvian consensus had been constructed. The strategy to achieve those objectives was changed with the changing global and internal situation.

38.6 SUMMARY

At Independence, India inherited an economy that had suffered over two hundred years of colonial rule. In the last four decades before Independence, India’s national income grew at a slow rate of 0.73 to 1.22 per cent per annum, the per capita income declined, agricultural production fell and industrial growth stagnated. The Nehruvian programme of development focussed on a policy of self-reliance, rapid industrialization based on import substitution, resistance to foreign capital, and land reforms. It was a vision that underlined the significance of state intervention and planning, and saw the need to promote the public sector and capital goods industries. In these early decades of planning, India’s National Income grew rapidly at an average rate of 4 per cent per annum, agriculture grew at 3 per cent per annum, and industries at 7.1 per cent per annum. After the Nehru era Indian economy faced a variety of difficulties: successive failure of monsoons, a slowing of agricultural growth, spiraling inflation, wars and influx of refugees. A series of measures introduced since the late sixties, including those associated with the Green Revolution, helped to check the growing crises. However the economic expansion was arrested by a set of structural constraints. Prolonged protection and excessive government intervention had eliminated healthy competition – both internal and external – and inhibited efficiency and innovation. After the initial spurt till the mid-1960s, growth rates of aggregate output declined between 1965 -75, recovered after that, and dipped again by the late 1980s. An industrialization that was based on import substitution was restricted by the constraints of the internal market. Unlike the East Asian countries India had not explored the possibilities of expanding the export market. The situation of crises was aggravated by a shift from a policy of fiscal prudence to fiscal profligacy.

Expenditures outstripped revenues, fiscal deficits soared, the balance of payments situation deteriorated, debts mounted, foreign exchange reserves collapsed. The economic reforms of 1991 were initiated in this context. Reforms meant an attempt at fiscal discipline, liberalization of trade and industrial controls. The industrial licensing system was dismantled, the public sector was reformed, and Foreign Direct Investments were welcomed. In the years after the reforms the growth rate of the Gross Domestic Product (GDP) recovered quickly, industrial production picked up, fiscal deficit was reduced, the overall external debt fell, the stock market boomed, and even poverty levels declined. Indian economy entered the age of globalization.

38.7 EXERCISES

1) Discuss the problems that the planners faced immediately after Indian independence.
2) Analyze the nature of Indian economic growth in the first three five year plans.
3) How did the Indian economy respond to the challenges faced in the 1960s?
4) Was the economic crisis of 1991 caused by the structural constraints to economic growth?
5) Account for the shift from the economics of 'fiscal prudence' to that of 'fiscal profligacy'. What were the implications of this shift?
6) Discuss the consequences of the economic reforms of 1991?

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