Indian Economic Development 1950-1980 : An Assessment

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"Free Enterprise was born with man and shall survive as long as man survives."

—**A. D. Shroff**
1899-1965
Founder-President
Forum of Free Enterprise

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by

Dr. R. M. HONAVAR*

India was among the first of the newly independent countries of the world to launch on a programme of planned development in the post World War II period. When the First Five Year Plan was formulated in 1951, high hopes were held about our experiment.

Let us see what the Indian economy has achieved in these thirty years. Taking the first aggregative average, national income, we find that net national product which was Rs. 16,731 crores in 1950-51, at 1970-71 prices, increased to Rs. 44,328 crores, in 1979-80 i.e., by 165 per cent. The average annual growth rate works out to 3.5 per cent, though there are violent fluctuations year to year.

The per caput net national product, which is a better index of people's standard of living, rose during this period from Rs. 466 to Rs. 678, i.e. by only 45 per cent.

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The most significant change that has taken place has been a revitalisation of Indian agriculture. It is commonly agreed that Indian agriculture had been stagnant in the preplanning days. In these thirty years not only has this stagnancy been eliminated but growth at the rate of 2.7 per cent per annum has been achieved. It is true that this growth has not been steady and there have been large year to year fluctuations. Nevertheless, to make a large country's agriculture working under differing climatic conditions to move steadily upwards is not a small achievement.

In a traditional economy, the bulk of the population derives its livelihood from agriculture. The only way to raise the standard of living of the people deriving their livelihood from it is to shift them into the more dynamic sector of industry. In successive plans, industry and infrastructure have been allocated a large volume of resources in order to achieve a rapid rate of growth and bring about the necessary change in the occupational distribution of the population.

A great deal has been achieved in terms of the growth of this sector and change in the industrial structure. Industrial production grew by 23 per cent in the first three plans. But in the subsequent twelve years, it increased by only 12.5 per cent, thus giving an average rate of growth over the period 1950-51 to 1978-79 of 6.1 per cent.

In the field of infrastructure also the country has taken large strides. Economic progress has always meant an increase in the share of national income saved and

invested, as growth is not possible without an ever-increasing volume of investment. The proportion of national income saved has steadily gone up from something like 8 per cent in the fifties to about 16-17 per cent in the seventies. Similarly net domestic investment has gone up from something like 10 per cent to 16-17 per cent in the seventies. Government has played an important part in capital formation. Government has raised massive resources through taxation. Tax revenue as per cent of national income has risen from 7 per cent to 20 per cent in this thirty year period. Secondly, after the nationalisation of the banking system a systematic deepening of the financial structure has taken place.

Overall, India's growth performance must be termed as unsatisfactory in spite of these achievements, no matter what criteria are adopted. The NNP growth rate has been no more than 3.5 per cent. This is not very laudable compared with what other developing countries, which started in the development race at about the same time as India, have achieved. If per caput national income is taken into consideration, India's performance is even more disappointing. Currently, it is about Rs. 678 at 1970-71 prices and is only 45 per cent higher than what it was three decades ago. The trend rate of growth has been 1.3 per cent and allowing for rising investment the growth rate of per caput consumption works out to only 1.1 per cent. Comparisons with successful developing countries are even more damaging.

Even this lacklustre overall performance has been marred by significant personal and spatial inequalities. It is somewhat disheartening to note that even today about

50 per cent of the rural population and 38 per cent of the urban population live below a not too generously defined poverty line of Rs. 45 and Rs. 54 per month respectively. Secondly, the proportion of those below the poverty line varies from 15 per cent in the Punjab to 66 per cent in Orissa.

Simultaneously, unemployment also has assumed serious dimensions. The backlog of unemployment in 1980 in the age group 15-59 is estimated to be about 11 million. To this if we add the new additions to the labour force in the same age group of about 6 million every year the problem assumes a formidable dimension.

Everywhere else development has implied that industry replaces agriculture as the dominant sector in the economy and that more people derive their livelihood from industry than agriculture. In India, however, the transformation in the economic structure has only been marginal. The share of agriculture in NNP was 49 per cent in 1950. It is not much less than 44 per cent now.

There is little doubt that India's achievement with regard to foodgrains has been significant. India is among the few developing countries in which food production has more than kept pace with the growth of population. Not withstanding this we have to be less than euphoric about it for several reasons. Firstly, the year to year fluctuations in agricultural production are very large, emphasising our continued dependence on rainfall.

Secondly, it has been repeatedly pointed out that since the food stocks exist simultaneously with widespread hun-

ger, it cannot be maintained that India's agricultural progress has been all that adequate.

Thirdly, while cereal output has been rising steadily the output of other crops like oilseeds and pulses has remained stagnant, which will have serious nutritional consequences.

Lastly, even though yields in crops like wheat and rice have been rising in areas which have assured water-supply, they are not comparable to yields which are obtained in the west for wheat and for rice in the east.

Why is it that India's performance has been so unsatisfactory? Broadly, four reasons seem to account for this failure.

The first and the most obvious reason is the failure to control the growth of population. The early planners assumed a decennial growth rate of 13 to 14 per cent per annum but the 1961 census made it clear that the rate would be above 20 per cent, because of the very success of the modest measures of public health and hygiene introduced in the successive plans. The growth rate has gone up to 24.8 per cent in the censuses of 1971 as well as 1981. Thus although India started with an advantage as compared with many developing countries, particularly those in Latin America, the growth rate of India's population has caught up with that of others and India's population has begun to assume an awesome dimension.

The incentives offered have also been meagre. Compare the occasional radio set or bicycle given to people who got vasectomy done with the incentives that are said to be offered in China. To make people adopt the one child family norm which has been accepted as a target recently a number of incentives are given to those doing so. These include a 6 to 10 per cent increase in family income, free education for the child up to 18 years and subsequently guaranteed employment and a preferential allotment of accommodation. Those who flout the norm and have three children or more force penalties like withdrawal of food subsidies, denial of housing and tax levies amounting to 5 to 12 per cent of family income.

No doubt such incentives will not be feasible in the Indian Society with its commitment to freedom and equity. But we have failed even in those areas where such compulsion is not necessary. Indian experience has shown that the birth rate is lower in those States where women enjoy a high status and female literacy is high. Thus Kerala has the lowest birth rate whereas UP has the highest, apparently because Kerala has the highest rate of female literacy in the country while UP has one of the lowest. As a matter of fact, the four States which have female literacy rates below 15 per cent viz., UP, Bihar, MP and Rajasthan, have also the highest growth rates and account for 39 per cent of the total population. That this is the state of female literacy after thirty years of development is a matter for almost despair about the control of population.

Secondly, the growth rate in agriculture has been slower than what was targeted and what has been achieved in many South Asian and South East Asian countries. The scope for increasing production by extending the area under cultivation, which was never very large in a heavily populated country like India, was exhausted in the early years of planning. Therefore, any further increase had to come only through increased productivity per hectare, i.e., through the use of inputs like water, fertiliser, pesticides and better varieties of seeds, adoption of modern cultivation practices, etc. This would need firstly a large volume of investment in irrigation, major, medium and minor, in fertiliser plants, in rural electrification, in seed development and so on; secondly, investment in research to evolve new methods and techniques; and finally investment in manpower to transplant research findings on to the farm. If adequate resources were not available to make these investments, growth in productivity could be affected. But irrigation, fertiliser plants, rural electrification etc., have not faced more than the general resource constraint which the economy as a whole faced.

But such investments as have been made have not been utilised effectively. The construction periods of major and medium irrigation projects have been longer than necessary. Some schemes have been lingering for 15-20 years. This has led to an escalation of costs and an up-setting of the schedules of completion. This was because Government was more anxious to spread the allocations thinly over a large number of projects to placate regional public opinion than to take up a few projects and complete them quickly. One suspects that the way

in which public works departments which execute these projects are structured has also something to do with the leisurely pace of implementation. Expeditious completion of projects is a continuous theme in every plan.

Secondly, the potential created has not been utilised quickly because of the delay in the construction of field channels and water courses, land levelling and land shaping. What is surprising is that these complaints were voiced as much in the Third Plan as in the Sixth Plan.

The same problems have been faced with regard to fertiliser manufacturing plants. Delays in construction have been quite common and utilisation well below capacity has also been a chronic complaint.

Again available water is not used effectively. Irrigated land should yield at least 4-5 tonnes of grain per hectare as it does in many South Asian countries. In India, the yield of rice was 1.32 tonnes per hectare in 1978-79 and 1.57 tonnes per hectare with regard to wheat. It is true in selected areas such as Ludhiana wheat yields are much higher. But the average yield is quite low because water management and other cultural practices are not optimum. This means extension effort has not been as much as is needed.

The water, fertiliser, HYV seed package is finance-intensive and can be adopted only by those who have the necessary resources. The small farmer and the marginal farmer (a) would not have the necessary resources and (b) find the whole operation too risky to undertake on borrowed resources. Therefore, even where the pack-

age could be adopted, all the land held by the smaller farmers would not be able to achieve any increases in productivity. Also since this technology is scale neutral and the larger farmers are not necessarily the ones who have achieved the highest yields the lack of access to the technology to the smaller farmers would be a positive handicap in our drive towards higher productivity.

Although on an absolute basis the area irrigated sounds impressive, only 28 per cent of gross sown area is irrigated. This means that the bulk of the sown area in the country is without assured water. Over a large part of the country the scope for adopting the water-fertiliser-HYV seeds package just does not exist and therefore, it is difficult to secure increases in productivity per hectare. It is also important to note that water and fertiliser responsive HYV seeds are available only in the case of rice and wheat. This is because research effort was developed exclusively towards foodgrains as food self-sufficiency was our objective in the immediate post independence years. Research with regard to other crops is still not adequate to produce worthwhile results. Unless a technological breakthrough occurs no great change in the production of coarse grains. pulses. oilseeds can be expected. Institutions like the ICRISAT doing research on dry farming techniques have to exert themselves much more.

Production gains in wheat, rice and sugarcane are not merely due to new technology but also due to a policy of price support and procurement. Such a com-

prehenseive programme has not been evolved with regard to other crops. Such efforts as are made in their case do not yield significant results because the producers of wheat, rice and sugarcane manage to secure through their political clout continuously higher prices and the purchase of wheat is offered to Government agencies.

The most disappointing agent aspect of Indian economic development in the last thirty years has been the slow growth of industrial production. The average rate, as we saw earlier, has been no more than 6.1 per cent. The growth rate has been particularly low since the mid-sixties.

Several explanations are available as to why this is so. In Second and Third Plans, dynamism was possible because of the simultaneous thrust of government investment into steel, machinery, electricity generation, iron ore development, railway expansion and so on. Private sector industry also went with a gusto into many consumer goods, industries and semi-durable industries because of the protection afforded under a policy of import substitution. At the end of the Third Plan, a resource constraint began to operate on public sector investment because of a sharp decline in national income, the burden of the consequences of the war with Pakistan and a decline in project aid. This resource constraint has operated for more or less a whole decade because of the increased burden of defence expenditure and minimisation of aid because of the adoption of a policy of self-reliance.

Also, some of the problems like lengthening of construction periods, teething problems which prevented operation of plant and equipment at full capacity, incomplete learning process etc., prevented production from materialising as scheduled and thus contributed further to the resource constraint on public sector projects.

The private sector also lost its dynamism for two reasons. Firstly, all the easy avenues of import substitution were quickly exhausted. Secondly, Government's licencing policy aimed at the prevention of the emergence of monopolies and the entrepreneurs' animal spirits pursuing the optimistic forecasts of growth of demand prepared by the Planning Commission brought into existence much more capacity than was needed to satisfy current demand. The slowing down of the tempo of Government investment also affected adversely many private sector industries which sold their output solely to Government. Wagon building was an outstanding example of one such industry facing a severely depressed outlook because railways slowed down investment as traffic did not grow because the expansion of steel and other industries did not take place as planned.

These problems were compounded by a severe shortage of foreign exchange. Raw materials, components, spare parts and balancing equipment could not be imported as desired and this naturally affected production as well as investment. Such aid as was available created as many problems as it solved because most of it was tied by now. Costs of projects

went up, completion schedules were severely upset and production suffered.

There were two possible ways out of this impasse. Since the impulse of import substitution was exhausted, a new impulse for further activity could come from the growth of internal consumption. This did not happen partly because of existing excess capacity and partly because of the slow growth of agriculture and the inequitous distribution of its fruits. Instead of the large farmers acquiring all the benefits of growth in agriculture, had a part of it gone to small and marginal farmers their demand for various consumer and producer goods would have provided the necessary stimulus for the expansion of industrial production and investment. Given the smallness of the size of their incomes and the consumption pattern, it is doubtful if expansion in their incomes would have led to the kind of demand revival which would have been needed to stimulate industrial growth.

Internal competition among existing producers which could have produced some stimulus was also ruled out by Government's licensing policy and by the growth of a breed of so-called entrepreneurs who looked upon the industrial licence as the modern equivalent of the sanad given by Lord Cornwallis to the Zamindars in Bengal.

An alternative way out would have been through the growth of exports. Of course, export led growth for India has been summarily ruled out by Indian economists on the ground that while such a strategy may

work in the case of a small country, it will not for a large country like India. Nevertheless, a crucial contribution to the growth process could have been made through the growth of exports of industrial products. India failed in this exercise on two counts. Firstly, the heavy protection offered by a policy of imports and exchange control and the rejection of the economies of scale in the name of MRTP made Indian products uncompetitive, quality-wise and price-wise. Secondly, since exports were not a part of her growth strategy, India tried to export whatever products were surplus to internal consumption rather than produce and export goods which were in demand in foreign markets. This involved heavy subsidisation and often led to paying extraordinarily high domestic resource cost for earning a unit of foreign currency. The result was that India's export effort was not overly successful.

Which was a pity. For more than a decade since 1965, severe foreign exchange shortages were plaguing the Indian economy continuously, affecting her industrial growth, delaying the completion of projects and compelling her to make uneconomic compromises in her investment programmes. Had the country built up exports, a great gain in manoeuvreability could have been secured as was realised in the years following 1976.

Strangely enough, India set its face against exports right from the beginning. Though a major textile exporting nation after independence, she passed up the opportunity to share the growth in world textile trade

by limiting the growth of the mill sector and restricting its modernisation efforts. Japan, Hong Kong and Korea which pursued an expansionist policy benefitted immensely from this growth. Later on, India was so impressed with the continental economy argument that she virtually concentrated on import substitution rather than on export production. The argument was that a country as large as India would flood the world markets with cheap goods and would meet tremendous resistance from the importing countries' domestic industries. No one anticipated the growth in world trade which took place in the two decades following World War II and did not realise that the role of external trade would change even in giant continental economies like the US. Secondly, it was not realised that an export drive of any kind requires time, energy, market research, flexibility etc. Given India's ability to plan and implement, the feared flood would not have materialised. The economy would have on the other hand been spared high cost production and secured much greater manoeuvreability with regard to domestic production and investment.

Arithmetically, growth is a function of the volume of resources invested and the capital output ratio. Has India's growth failure been due to an inability of the Indian economy to invest enough? Net domestic capital formation as a percentage of net national income rose from 5.5 per cent in 1950-51 to 12.7 per cent in 1960-61. It rose to 13.9 per cent in 1965-66 and declined in subsequent years. It began to rise again from 73-74 onwards to reach 19 per cent in 1978-79. Part of this

increase in the latter period is deceptive because it includes inventories. But the more important point is that this level of investment is not very high as compared to what successful developing countries are achieving. Thus resource scarcity has been an important factor affecting India's economic growth.

Why is it that India could not mobilise resources? In a poor economy, it is but natural that resource mobilisation should be meagre. Therefore, the strategy should be to appropriate a large share of incremental income for investment. Since the public sector plan was the dominant agent of change, the inability to provide more resources for investment meant a failure on the part of Government to appropriate resources from other sectors or to minimise its unproductive expenditure and increase Government saving. If one looks at the financing pattern of successive plans, one finds that the following categories provide the bulk of resources, balance from current revenues, surpluses from public enterprises, revenues from new taxes, borrowings from other sectors and external assistance. The first two categories have not at all provided a significant volume of resources for further investment. Although each plan fondly hoped that Government would be in a position to minimise non-development expenditure and divert resources to plan investment, contribution under the first head have been meagre. It is because both the Centre and the States have been unable to avoid consumption expenditure like expenditure on alleviating the damage from natural calamities, growing defence expenditure, subsidies, ill-advised concessions and so on.

The story is equally depressing with regard to surpluses of public sector enterprises. The record of State enterprises is uniformly bad while that of Central projects is somewhat mixed. State Electricity Boards, irrigation authorities and enterprises, run by the States have already contributed worthwhile resources for further development. Several factors have combined to bring about such a result. Firstly, it was argued in the early days that public sector enterprises should work on a no-profit-no-loss basis because they were to act as catalytic agents. Therefore, prices were fixed in such a manner that they earned only a meagre profit, if at all. Also so far as water and electricity were concerned there was tremendous pressure to sell them at uneconomic prices to the rural consumers who were mostly well off peasantry. The result was that these enterprises were subsidising undeserving users of vital inputs.

The profit philosophy was not vigorously pursued again because it was feared that public enterprises being monopolies in many cases, would easily exploit the consumer to earn a profit. For the same reason, it was felt that price regulation would compel them to earn more revenue through efficient working rather than conceal inefficiency and earn high profits through raising prices. Also since many of them produced basic producer commodities like steel, coal, oil. electricity, etc., it was feared that any price increase to ensure profitability would have a cost-push inflationary effect on the rest of the economy. The result of all this was that a volume of investment currently as large

as Rs. 20,000 crores is not able to provide an adequate return which can be ploughed back for further investment.

Price policy is not the only factor which makes for a low return on public sector investment. Managerial inefficiency also is a contributory factor. The need for accountability and the suspicion with which the entire state apparatus is viewed by the rulers has led to a plethora of rules and a minimisation of discretionary action. This has led to a great loss of cost effectiveness and a pursuit of rules rather than profits. Also, since Government was new to industry and could not attract competent managers on the terms and conditions offered, these enterprises had to be manned by civil servants for a considerable period initially. This also has had an impact on efficient operation.

The role of labour in these enterprises also needs to be noted. Firstly, there is considerable overmanning in many enterprises of which Coal India is the most glaring example. Political considerations make it impossible to retrench surplus workers. Inter union rivalries, the attitudes of State Governments towards Central enterprises, the involvement of individual legislators with particular enterprises and considerable interest displayed by parliament make it difficult to ensure efficiency and high productivity. On the other hand, there has been a continuous tendency to raise benefits without any assurance that this will result in higher production and productivity.

Resource mobilisation through taxation has been satisfactory so far as the Centre is concerned. The States unfortunately have not made an equivalent effort. This effort, however, has had some undesirable results. Firstly, for the sake of ease of raising resources, reliance on indirect taxes has increased greatly. More than four fifths of total tax revenue comes from indirect taxes. This means that the tax system weighs more heavily on the poor than on the rich, though a degree of progression is sought to be introduced through differential rates on commodities consumed by the rich. Secondly, it contributes to cost push inflation because indirect taxes cover virtually every commodity.

The failure of resource mobilisation on these two counts has led to an increasing reliance on deficit financing because it is an easier way out than increased taxation though ultimately, it has the same effect. This has meant a sharp rise in prices which has made the task of resource mobilisation even more difficult by increasing unproductive expenditure and by encouraging the diversion of physical resources into speculative inventories. Side effects like increased tax evasion have only complicated the task of raising resources. Deficit financing could have been minimised if new taxes like an agricultural income tax were levied and evasion of income tax checked firmly. The reissue of bearer bonds has confirmed Government's inability to check tax evasion.

The other part of the arithmetic is the capital output ratio. Not only has the capital output ratio not

been what the planners assumed but it has been continuously rising as the following table shows: First Plan 3.2; Second Plan 4.1; Third Plan 5.4; Annual Plans 4.9; Fourth Plan 5.7; Fifth Plan 3.9. This is due to rising construction periods, low utilisation of capacity due to factors like lack of demand, an industrial licensing policy which did not pay any attention to the economies of scale, infrastructure problems, managerial faults, inadequately trained operating personnel, poor maintenance, bad raw material and fluctuations in output. It is not correct to say that this increase is due to India's undertaking increasingly capital intensive investment in the mining and manufacturing sectors. Studies have shown that in countries like Korea, Taiwan and Brazil the capital output ratio is much lower in spite of increasingly capital intensive investment. The Indian experience, therefore, only underscores the fact that India does not use effectively its most scarce resource, viz., capital.

Finally, although it is a vague and amorphous thing, mention must be made of the fact that the politics in our country has had an adverse impact on our development.

The most important political factor that has slowed down our performance is the fact that India is a parliamentary democracy. Members of legislature at various levels have to be elected and, therefore, their actions seem to be invariably governed by this overriding consideration. Like politicians everywhere they lobby to have job creating and money dispensing pro-

jects to be located in their constituencies or to ensure that profitable programmes are introduced in their constituencies. The need for such lobbying gains strength from the fact that India being a large country expenditure in another part may not trickle down. But they seem to do it with much more gusto in India which has evoked the following remark from a foreign observer: human nature is the same everywhere, but it seems to be more so in India.

But this lobbying has had frequently undesirable consequences from the national point of view. The war of lobbyists has often led to a delay in decisions about projects, raising their costs and delaying their benefits. Secondly. it has led to wrong decisions being taken, making for high cost or uneconomic output. Thirdly, it has led to resources being spread thinly in order to appease many claimants with the result that benefits of projects have accrued only after a long while. You have only to look around to recognise such instances of poor implementation.

Similarly, their anxiety to win over the electorate has led them to function exclusively as advocates of as large a transfer of resources to as large a number of people as possible. In a poor country doing good to the poor is always a winning slogan. Under this slogan, they have advocated subsidised prices for consumers and high prices for agricultural producers, high wages for factory employees and fixed or relatively low prices for their products, write off of overdue loans, nonrecovery or indifferent recovery of dues

for items like electricity and water supplied to agriculturists, and so on. On the other hand, with regard to resource mobilisation for investment purposes, they have shown remarkable naivete by either blandly suggesting that the so-called rich should pay or else by conveniently ignoring the problem altogether. Since growth is difficult and in the future but redistribution is here and now the politicians have invariably preferred to distribute poverty now rather than distribute plenty later.

Again the peculiar brand of parliamentary democracy that is practised in India compels us to pursue all good objectives at the same time and any development which violates any one of them brings forth immediately stultifying corrective action. A firm manufacturing hand-tools has a good export market and the country would benefit from its expansion. But it is denied the opportunity because it would then become a dominant undertaking in the domestic market. Expansion of existing steel plants would be cheaper and quicker than setting up new ones. But to spread the benefits of such investment widely over the country, new plants should be set up elsewhere. Importing a particular type of knowhow would ease our electricity problems but it will not be permitted because it may affect our programme of self-reliance through the development of indigenous knowhow. The best thus becomes the enemy of the good.

The attitude of the politicians towards bureaucrats is yet another factor which has affected India's growth. While each day leads to greater and greater reliance

being placed on the bureaucracy to execute the Government's development programme each day they are reviled as anti-people, prone to corruption, lethargic, inefficient and unimaginative. Not only is no positive incentive offered to them to identify and work better but on the contrary more and more restrictions are placed on them to ensure honesty and probity. The result is that in their anxiety to be correct or safe, efficiency and promptness have been sacrificed by bureaucrats. Also since no rewards are attached to good work, and bad work is not punished, working to rule has become the norm. Howsoever tolerable this may be in routine administration, it is certainly not going to yield satisfactory results where promotional work is to be done or where large and complex enterprises have to be administered. Those who have displayed initiative and enthusiasm in such matters have sooner or later fallen a prey to the overwhelming suspicion which politicians have about the bureaucrats.

It is strange how even after thirty-five years of independence the politician has not shed his attitude of colonial days towards the bureaucracy though he is becoming more and more dependent on it. Our system has not produced the cadres of China who work with people; nor have we given any sense of belonging to the bureaucracy in development effort. The result is that we get the worst of both the worlds. Those who are honest or timid are put off from doing their best. Those who are skilled and daring use the regulatory and promotionary system that has been built up for their own personal gain.

Would India fare better in the next thirty years? Theoretically, she should because many parameters such as the proportion of saving, technological awareness, trained manpower, etc., are much more favourable now than thirty years ago. But, ultimately, success will depend upon whether our institutions will permit us to derive the full benefits of these advantageous circumstances.

The views expressed in this booklet are not necessarily the views of the Forum of Free Enterprise.

"People must come to accept private enterprise not as a necessary evil, but as an affirmative good".

—Eugene Black

Forum of Free Enterprise

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