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CHALLENGES OF DEVELOPMENT OVER THE INITIAL DECADE OF PLANNING IN INDIA

Dr. Ritu Ranjan
Associate Professor,
Department of Economics, S.R.C.C.

On the eve of Independence, India inherited a poor, backward, underdeveloped and stagnant economy from the British colonial rule. Owing to various commissions and omissions of the exploitative colonial regime of the British, the growth process of the Indian economy was retarded. More specifically, the drain of wealth and de-industrialisation brought about by the British had seriously retarded the potential of the Indian economy to grow, so much so that the production possibility frontier of the economy was not expanding.

The abject poverty was accompanied by technological and social backwardness as also hunger and malnutrition to such an extent that the threat of a famine was looming large particularly in the light of the fact that the memories of the Great Bengal famine of 1943 were still quite fresh in the minds of people at that time. In view of this, upon gaining political Independence, the planners and policy makers in India accorded top-most priority to "food-security" issues so as to gain independence from hunger and malnutrition also. Thus, the first Five-Year Plan (1951-56) focussed on the agricultural sector and turned out to be highly successful in the sense that it even surpassed its targets. Inspired by the success of this plan, the Government launched an ambitious programme of rapid industrialisation based on the Nehru-Mahalanobis strategy of development during the second Five-Year Plan (1956-61).

In order to give a big push to the economy, the development strategy during this plan laid emphasis on building a diversified industrial base especially the setting up of basic and heavy industries and infrastructural development through capital formation and technological upgradation so as to enhance the productive potential of the economy.

A major challenge encountered during the implementation of this ambitious plan was one of financing it. For, traditionally, taxation is considered to be the main revenue mobiliser for the Government. But in a poor economy characterised by large-scale unemployment and a significant proportion of the population living close to subsistence level at that time, there were visible limitations to the raising of revenues through taxation. In case, the tax rate would have been increased to extract more revenues, it would have proved to be counter-productive due to the standard "Laffer Curve" argument. Moreover, on welfare grounds, it appeared unreasonable to impose the burden of extra taxation on the already impoverished population.

An alternative source of financing the plan could be mobilisation of financial resources through foreign trade and other transactions on the Balance of Payments account. But even this possibility was ruled out since the policies of export pessimism and import substitution had almost led to a state of autarchy in the Indian economy at that time. More specifically, our domestic industries were in such a nascent stage at that time that they could neither compete in the international market, nor withstand foreign competition. Further, due to the lack of surplus on a sustained basis in the agricultural sector, the export of primary products especially food grains could have endangered and jeopardised our food security. In view of this, the policy makers at that time developed a pessimism with respect to the viability of exports and thus there was no thrust on promoting exports.

Evidently, in the absence of sufficient exports, the foreign exchange earnings of the country too were low to such an extent that it was difficult to finance too much of imports. It is actually for this reason that except for universal intermediaries such as Petroleum, Oil and Lubricants (POL) wherein imports were practically indispensable, there was generally a tendency on the part of planners to discourage imports and substitute them by domestic production. It was this compulsion dictated by the lack of adequate forex reserves that encouraged import substitution in India during the second Five-Year Plan era.

Furthermore, following the standard "infant industry argument", the newly established domestic industries were insulated from foreign competition by imposing high import tariff walls and import quota restrictions thereby leading to protectionism in the Indian economy. Under such a restricted environment of inward-looking policies of the State and the adoption of an almost closed-economy framework, it was evidently impossible to rely on the international mobilisation of financial resources.

It was against this backdrop that the public sector was perceived as a major vehicle of resource mobilisation during the second plan regime based on Nehru-Mahalanobis development strategy in India. In fact, owing to their potential to finance developmental activity through the generation of surpluses, the Public Sector Undertakings (PSUs) were expected to achieve "commanding heights" in the economy during that policy regime. The argument that the PSUs could serve as "prime movers" behind growth and development in India was further corroborated by the fact that these units had tremendous employment generating potential and could significantly contribute towards "Balanced Regional Development" by opening up industrial units in hitherto backward areas wherein profit-seeking private sector was reluctant to enter owing to commercial considerations. In addition, public sector was dealing with the "Core Sector" which in turn had strong forward and backward linkages with the rest of the economy thereby providing a fillip to the growth of other prominent sectors in the economy.

The relevant empirical evidence has established that the initial decade of planned economic development in India was instrumental in transforming an economy devastated by a long colonial rule of the past into an economy capable to grow on a sustained basis. The challenges posed by the circumstances at that time were no doubt tough, but the building up of a strong and diversified industrial base through a deliberate policy action was by and large successful in effectively meeting those challenges.