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Indian Economy 1950-1990

After studying this chapter, the learners will

- come to know the goals of India's five year plans
- know about the development policies in different sectors such as agriculture and industry from 1950-1990
- learn to think about the merits and limitations of a regulated economy.

The central objective of Planning in India... is to initiate a process of development which will raise the living standards and open out to the people new opportunities for a richer and more varied life.

First Five Year Plan

2.1 INTRODUCTION

On 15 August 1947, India woke to a new dawn of freedom. Finally we were masters of our own destiny after some two hundred years of British rule; the job of nation building was now in our own hands. The leaders of independent India had to decide, among other things, the type of **economic system** most suitable for our nation, a system which would promote the welfare of all rather than a few. There are different types of economic systems (see Box 2.1) and among them, socialism appealed to Jawaharlal Nehru the most. However, he was not in favour of the kind of socialism established in the former Soviet Union where all the means of production, i.e. all the factories and farms in the country, were owned by the government. There was no private property. It is not possible in a democracy like India for the government to change the ownership pattern of land and other properties of its citizens in the way that it was done in the former Soviet Union.

Nehru, and many other leaders and thinkers of the newly independent India, sought an alternative to the extreme versions of capitalism and socialism. Basically sympathising with the socialist outlook, they found the

answer in an economic system which, in their view, combined the best features of socialism without its drawbacks. In this view, India would be a socialist society with a strong public sector but also with private property and democracy; the government would plan (see Box 2.2) for the



Work These Out

- Prepare a chart on the different types of economic systems prevalent in the world. List out the countries as capitalist, socialist and mixed economy.
- Plan a class trip to an agriculture farm. Divide the class into seven groups with each group to plan a specific goal, for example, the purpose of the visit, money expenditure involved, time taken, resources, people accompanying the group and who need to be contacted, possible places of visit, possible questions to be asked etc. Now, with the help of your teacher, compile these specific goals and compare with long-term goals of successful visit to an agricultural farm.

Box 2.1: Types of Economic Systems

Every society has to answer three questions

- What goods and services should be produced in the country?
- How should the goods and services be produced? Should producers use more human labour or more capital (machines) for producing things?
- How should the goods and services be distributed among people?

One answer to these questions is to depend on the **market forces** of supply and demand. In a market economy, also called capitalism, only those consumer goods will be produced that are in demand, i.e., goods that can be sold profitably either in the domestic or in the foreign markets. If cars are in demand, cars will be produced and if bicycles are in demand, bicycles will be produced. If labour is cheaper than capital, more labour-intensive methods of production will be used and vice-versa. In a **capitalist** society the goods produced are distributed among people not on the basis of what people need but on the basis of Purchasing Power—the ability to buy goods and services. That is, one has to have the money in the pocket to buy it. Low cost housing for the poor is much needed but will not count as demand in the market sense because the poor do not have the purchasing power to back the demand. As a result this commodity will not be produced and supplied as per market forces. Such a society did not appeal to Jawaharlal Nehru, our first prime minister, for it meant that the great majority of people of the country would be left behind without the chance to improve their quality of life.

A **socialist** society answers the three questions in a totally different manner. In a socialist society the government decides what goods are to be produced in accordance with the needs of society. It is assumed that the government knows what is good for the people of the country and so the desires of individual consumers are not given much importance. The government decides how goods are to be produced and how they should be distributed. In principle, distribution under socialism is supposed to be based on what people need and not on what they can afford to purchase. Unlike under capitalism, for example, a socialist nation provides free health care to all its citizens. Strictly, a socialist society has no private property since everything is owned by the state. In Cuba and China, for example, most of the economic activities are governed by the socialistic principles.

Most economies are **mixed economies**, i.e. the government and the market together answer the three questions of what to produce, how to produce and how to distribute what is produced. In a mixed economy, the market will provide whatever goods and services it can produce well, and the government will provide essential goods and services which the market fails to do.



Box 2.2: What is a Plan?

A plan spells out how the resources of a nation should be put to use. It should have some general goals as well as specific objectives which are to be achieved within a specified period of time; in India plans are of five years duration and are called five year plans (we borrowed this from the former Soviet Union, the pioneer in national planning). Our plan documents not only specify the objectives to be attained in the five years of a plan but also what is to be achieved over a period of twenty years. This long-term plan is called 'perspective plan'. The five year plans are supposed to provide the basis for the perspective plan.

It will be unrealistic to expect all the goals of a plan to be given equal importance in all the plans. In fact the goals may actually be in conflict. For example, the goal of introducing modern technology may be in conflict with the goal of increasing employment if the technology reduces the need for labour. The planners have to balance the goals, a very difficult job indeed. We find different goals being emphasised in different plans in India.

Our five year plans do not spell out how much of each and every good and service is to be produced. This is neither possible nor necessary (the former Soviet Union tried to do this and failed). It is enough if the plan is specific about the sectors where it plays a commanding role, for instance, power generation and irrigation, while leaving the rest to the market.

economy with the private sector being encouraged to be part of the plan effort. The 'Industrial Policy Resolution' of 1948 and the Directive Principles of the Indian Constitution reflected this outlook. In 1950, the **Planning Commission** was set up with the Prime Minister as its Chairperson. The era of five year plans had begun.

2.2 THE GOALS OF FIVE YEAR PLANS

A plan should have some clearly specified goals. The goals of the five year plans are: growth, modernisation, self-reliance and equity. This does not mean that all the plans have given equal importance to all these goals. Due to limited resources, a choice has to be made in each plan about which

of the goals is to be given primary importance. Nevertheless, the planners have to ensure that, as far as possible, the policies of the plans do not contradict these four goals. Let us now learn about the goals of planning in some detail.

Growth: It refers to increase in the country's capacity to produce the output of goods and services within the country. It implies either a larger stock of productive capital, or a larger size of supporting services like transport and banking, or an increase in the efficiency of productive capital and services. A good indicator of economic growth, in the language of



Box 2.3: Mahalanobis: the Architect of Indian Planning

Many distinguished thinkers contributed to the formulation of our five year plans. Among them, the name of the statistician, Prasanta Chandra Mahalanobis, stands out.

Planning, in the real sense of the term, began with the Second Five Year Plan. The Second Plan, a landmark contribution to development planning in general, laid down the basic ideas regarding goals of Indian planning; this plan was based on the ideas of Mahalanobis. In that sense, he can be regarded as the architect of Indian planning.

Mahalanobis was born in 1893 in Calcutta. He was educated at the Presidency College in Calcutta and at Cambridge University in England. His contributions to the subject of statistics brought him international fame. In 1946 he was made a Fellow (member) of Britain's Royal Society, one of the most prestigious organisations of scientists; only the most outstanding scientists are made members of this Society.

Mahalanobis established the Indian Statistical Institute (ISI) in Calcutta and started a journal, *Sankhya*, which still serves as a respected forum for statisticians to discuss their ideas. Both, the ISI and *Sankhya*, are highly regarded by statisticians and economists all over the world to this day.

During the second plan period, Mahalanobis invited many distinguished economists from India and abroad to advise him on India's economic development. Some of these economists became Nobel Prize winners later, which shows that he could identify individuals with talent. Among the economists invited by Mahalanobis were those who were very critical of the socialist principles of the second plan. In other words, he was willing to listen to what his critics had to say, the mark of a great scholar.

Many economists today reject the approach to planning formulated by Mahalanobis but he will always be remembered for playing a vital role in putting India on the road to economic progress, and statisticians continue to profit from his contribution to statistical theory.

Source: Sukhamoy Chakravarty, 'Mahalanobis, Prasanta Chandra' in John Eatwell et.al, (Eds.) *The New Palgrave Dictionary: Economic Development*, W.W. Norton, New York and London.



