CHAPTER VII
SUMMARY AND CONCLUSION

Even after 55 years of planned development, India has not succeeded to solving the basic problems of the Indian economy. The rate of poverty and unemployment is increasing even after we completed 9 five year plans. Though government of India launched various poverty alleviation programmes they have not benefited properly the people who were targeted. As P.C. Maholonobis once stated as a “result of economic planning rich became richer and poor became poorer in India”. It is a fact that the fruits of development in our country is being appropriated by the affluent sections in the country. It may be argued that the very orientation of our economic policy is biased towards the upper strata of the Indian society. Though vast majority of the people of India living in rural areas nothing worth while has been done to improve the living conditions of the rural people of our country. Progress and facilities were available only in the urban centers of our country.

During the freedom struggle Gandhiji highlighted the central role of agriculture and allied activities and cottage and traditional industries for the
emancipation of the rural population. As Gandhi stated a number of times “India lives in villages’. By neglecting the villages India can never make any progress. Gandhiji during the freedom struggle stressed the importance of a indigenous and rural based programme for India’s reconstruction. Gandhiji had a programme for the economic upliftment of the vast majority of the rural people. The Gandhian model of economic development was never given a try in independent India. Nehru chosen the Western model. Based on heavy industrialisation and implemented it through a centralised planning mechanism that he borrowed from the Soviet Union. The Development policy introduced by Nehru aimed at the elimination of poverty and unemployment and the establishment of a socialistic pattern of society in India. With this over all aim, government of India formulated a programme of planned development of the Indian economy. Every five year, a separate plan was formulated and each five year plan had its own special objectives.

The first five year plan launched in 1951 had visualised a doubling of per capita income by 1980-81 leading to a sharp reduction in poverty levels. The first plan lay more emphasis on Agriculture. The plan was able to attain its objectives in the agricultural sector. Though the first five year plan achieved in increasing agricultural production. The actual achievement was not more than half. Per capita income increased by only 50 percent during
40 years upto 1990-91. The overall development strategy of Government of India was clearly defined in the Second Plan (1956-61), whose launch coincided with the Industrial Policy Resolution of 1956, which delineated the roles of the public and private sector, a division that was to last for the next 35 years. The focus on heavy industry during the 2nd plan is well known. What was not so well known at that time and the price for which was paid later was the export of pessimism that crept into the economy and more tragically, the neglect of land reforms. The second plan lay more emphasis on heavy industries. A number of such industries were established during the plan period. The importance of the 2nd five year plan was that the subsequent plans more or less followed the development strategy with minor changes here and there upto the late 80’s.

During the early 70’s there was increasing awareness among our policy makers and planners that the benefits of development have not reached the poorer sections of the people, though the five year plans were intended to improve the lots of the poorer sections of the people. Therefore, the government of India launched a number of poverty alleviation programmes during the period. Integrated Rural Development Programme (IRDP), Rural Landless Employment Generation Programme (RLEGP), National Rural Employment Programme (NREP) are the notable examples. The design of these programmes was (and has been) faulty and a large part of
the funds were appropriated by the local functionalizes. Yet, the expansion of
the programmes perhaps constituted the first acknowledgement that the poor
did matter, even if only in terms of electoral politics.

There was stagnation of growth. It was recognized in the beginning of
the eighties (by Indira Gandhi) that unless higher growth was achieved, the
economy would collapse. So she started liberalizing the economy by
removing some of the restrictions of investment. The result was remarkable.
Rajiv Gandhi liberalized further, and faster growth was marked in the 2nd
half of the 80’s. But it was fed by reckless external borrowing and
irresponsible fiscal expansion at home. The wages of such mismanagement
had to be paid in the early 90’s, and the balance of payment crisis snow balled
into a serious external crisis in 1991. It opened the watergate of sweeping
changes in the economic policy of the country. In order to tide over this
crisis Narasimha Rao introduced the new economic policy of globalisation.

The New Economic Policy announced by the Government of India in
June 1991 amounted to a ‘U’ turn in economic policy. It gave a deep burial to
the twin basic principles that gave the basic orientation to the planning process
throughout namely maintaining political independence, sovereignty and the
insistence that the main beneficiary should be the weaker sections and the
rural poor. Export promotion as against import substitution, dominance of the
market in place of direction by the state, prominence for the private sector
instead of dominance of the public sector, openness to the international economy and to foreign are the chief components of the NEP.

The central problems of the Indian economy still however, continue to be widespread and extreme poverty, low productivity and ever increasing disparities. If the performance of the post-1991 era is to be judged by these yardsticks then there is little that can be said for the process that was ushered in by the Narasimha Rao government. The only ‘real’ benefit of liberalization was that it freed certain sections from the oppressive control of the state, which under the pretext of central planning aimed at creating a socialist pattern of society, gave us a corrupt system that resulted in a vastly unequal and under-productive society.

The sections of population who were liberated from the oppressive control of the state, not surprisingly, were the very ones who benefited most when we were trying to create a ‘socialist society’. Liberalization, as we know it so far, has failed to address India’s core economic problems. Poverty has grown, productivity has fallen, and income inequality has widened. That is mostly due to the fact that instead of becoming an all encompassing process that would not only free the economy and stimulate entrepreneurship and creativity, but also restructure government to make it more accountable, transparent and honest, it just became an initial first step
that did away with the quota allocating industrial licensing policy, opened up more areas to foreign investment and little else.

One could argue that without the liberalization package the economic condition would have worsened. This is plausible. The roots of the problems that afflict us today were sown in the previous decades. We know what these are. Therefore, the biggest failure of the reform process ushered in 1991 was that it is based on partial judgements and false premises of the economy. It has now remained stalled for long in the mire of crony capitalism and bureaucratic sloth.

Stripped of all rhetoric, liberalisation was intended primarily to do two things. First and foremost it was supposed to accelerate industrial growth. Next it was meant to attract huge inflows of foreign investment to finance infrastructure development. Neither happened. Industrial growth in the decade 1981-91 was 7.7%. Since 1991-92 it has been 5.8%. Foreign Direct Investment or FDI from 1991 to 1999 amounted to US$ 12879 million. Of this US$ 2440 million are NRI investments suggesting that a good part of it is actually money clandestinely stashed abroad and returning to bolster equity positions of owner-managers, a somewhat quaint terms to describe people with small individual holding who are still permitted to manage companies as personal properties and private fiefdoms.
Former Finance Minister P. Chidambaram, was of the view that India needed about US $ 10^2$ billion or Rs. 43, 000 crore of FDI a year to pull itself up to world standards by the middle of the current century. Instead of the US$ 90 billion we wanted, we have so far attracted only US$ 13 billion. So how good was our liberalization?

There are other indicators too that strongly suggest that liberalization rather than speeding up growth and development actually slowed it down. Agricultural growth, which averaged 4.04% p.a. for the decade 1981-91, fell to 2.3% p.a. for the period 1991-99. The impact of this can be most seen in food prices. The average annual price rise during the 1980s for food articles was rice 5.6%, wheat 5.7% and pulse-11.2%. During the following decade these changed respectively to: rice 10.2% wheat 9.5% and pulses 11.4%.

Since 1981 the area under food grains and oil seeds crops has remained almost static at about 150 million hectares, while the number of people working on the land increased from 186.2 million in 1991 to 228.2 million in 1999. This suggest a major slowdown in the growth of real incomes and wages in the rural sector because foodgrains production only grew from 176.4 million tonnes in the year 1990-91 to 192.4 million tonnes in the year 1997-98.
The World Bank estimates the annual average growth of wage rates of unskilled agricultural male workers in the 80's to be 4.6% as opposed to 2.5% in the 90s. It would seem that but for lower wages given the greater availability of farm workers, the rise in food prices would have been higher. While all through the 1980s the wholesale price index rose at an average annual rate of 6.9%, it grew at 8.8% in the liberalized 90s.

Employment generation in the organized sector too suffered. It was growing at a modest 1.6% during 1981-91, just keeping pace with the population growth rate. Since then the growth in jobs in the organized sector has halved to 0.8% while the population continues to grow as before.

The power sector, which was a major source of concern at the beginning of the last decade, too did not show any great leap forward though the centerpiece of the liberalization policy was the opening up of the sector to foreign capital and ownership. As a part of liberalization we noted the worst examples of crony capitalism unfold. Promoters of power projects were not only assured an extraordinarily high rate of return, 16% p.a., but were given all sorts of other guarantees as well. They were protected against currency fluctuations, and payments and off-take were both guaranteed, thus insulating them against all risks, giving the terms risk capital an entirely new meaning.
The foreign trade picture too was to radically change as a result of liberalization. This it probably did. For imports, which were growing modestly at the rate of 4.5% p.a. during 1991-2000. But did it make a big difference to exports? Not really, because the change was miniscule from 8.28% to 8.41%. All the time we were being told that if imports grew so would exports. But that just did not happen.7

The trade deficits have been growing exponentially. In 1980-81 the adverse balance was Rs. 5838 crore; in 1990-91 this was Rs 10645 crore. By 1998-91 it had swelled to Rs. 55478 crore. It would seem that besides devaluation, ostensibly to make exports more competitive, we have had no foreign trade policy worth the name. In 1981 one dollar was worth Rs. 8. In 1991 this changed to Rs. 18 and now to little more than Rs. 48.8

Table 7.1
India’s External Debt Outstanding (US$ billion)

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<tbody>
<tr>
<td>Long-term debt</td>
<td></td>
<td>75.3</td>
<td>78.2</td>
<td>94.7</td>
<td>88.5</td>
<td>92.6</td>
<td>94.4</td>
<td>96.1</td>
<td>97.58</td>
</tr>
<tr>
<td>Short-term debt</td>
<td></td>
<td>8.5</td>
<td>7.1</td>
<td>4.3</td>
<td>5.0</td>
<td>4.3</td>
<td>3.9</td>
<td>3.5</td>
<td>2.80</td>
</tr>
<tr>
<td>Total debt</td>
<td></td>
<td>83.8</td>
<td>85.3</td>
<td>99.0</td>
<td>93.5</td>
<td>96.9</td>
<td>98.9</td>
<td>99.6</td>
<td>100.38</td>
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<th>External debt – key indications (ratios as per cent)</th>
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<tbody>
<tr>
<td>Total external debt to GDP</td>
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<tr>
<td>Short – term to total debt</td>
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<tr>
<td>Short – term debt to foreign currency assets</td>
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</tbody>
</table>

The 1991 Census confirms that even after four and a half decades of independence over 80% of all rural workers are employed by the agricultural sector. As many as 52% of the men, and 18% of the women living in rural India are farm workers. In many states the dependence on the agricultural sector for employment has increased. This continuous assured supply of labour to the rural sector clearly has a depressive effect on the daily wages of agricultural and other rural workers. It is small wonder that they comprise the bulk of the poorest among the poor.

In 1991 Mohan Guruswamy along with Shantanu Nagpal, tired to estimate the incidence of poverty using basic human needs and quality of life parameters. Among these were proper nutrition, shelter, access to services like education, health, clean drinking water, and public transportation. Using these expanded set of criteria we estimated that over 70% of Indians fell below the poverty line. The conclusion of their analysis was that if those yardsticks were adopted, the government would be pushed into adopting a new set of policies to target its goals and prioritize them more systematically. Evidently the system is still not ready for such a major change.
### Table 7.2

India’s Global Position on Human and Gender Development

<table>
<thead>
<tr>
<th>Category</th>
<th>Human Development Index</th>
<th>Gender Development Index</th>
<th>Gender Empowerment Measure</th>
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<tbody>
<tr>
<td>Norway</td>
<td>0.933</td>
<td>0.939</td>
<td>0.911</td>
</tr>
<tr>
<td>Australia</td>
<td>0.927</td>
<td>0.936</td>
<td>0.901</td>
</tr>
<tr>
<td>Sri. Lanka</td>
<td>0.74</td>
<td>0.735</td>
<td>0.660</td>
</tr>
<tr>
<td>China</td>
<td>0.594</td>
<td>0.718</td>
<td>0.578</td>
</tr>
<tr>
<td>Indonesia</td>
<td>0.637</td>
<td>0.677</td>
<td>0.591</td>
</tr>
<tr>
<td>India</td>
<td>0.439</td>
<td>0.571</td>
<td>0.401</td>
</tr>
<tr>
<td>Pakistan</td>
<td>0.483</td>
<td>0.498</td>
<td>0.360</td>
</tr>
<tr>
<td>Nepal</td>
<td>0.364</td>
<td>0.480</td>
<td>0.310</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>0.364</td>
<td>0.470</td>
<td>0.334</td>
</tr>
<tr>
<td>Mozambique</td>
<td>0.246</td>
<td>0.323</td>
<td>0.229</td>
</tr>
<tr>
<td>Niger</td>
<td>0.207</td>
<td>0.274</td>
<td>0.196</td>
</tr>
</tbody>
</table>

Note: @ relates to 1999
Source: *Human Development Reports 1999 and 2001*

Two papers by S.P Gupta, Member Planning Commission and Gaurav Datt, after analyzing the data thrown up by the latest National Sample Surveys, concluded that the incidence of poverty has actually gone up since 1991. Gupta’s conclusions are quite disturbing. According to him the incidence of poverty, which dropped from 44.5% in 1983 to 34.3% in 1990, grew to 43% in 1998. Datt is more charitable and came to the conclusion that while urban poverty has shown a declining tendency, rural poverty levels have been static because “the trickle down” did not take
place. He even suggests that it will not work—it is a make believe situation. Even the experience of the USA has shown that growth does not trickle down voluntarily. Only an enabled and empowered population that can meaningfully join in the growth process can suck it down. Indian record in this is pathetic.

What direction the economy should take is the crux of the debate that is going on in this country. Protagonists of market guided globalisation argue that the present problems sprang up because the economy was not properly liberalised. So they advocate ‘bold steps’ means more liberalization, opening up the economy fully to the global market forces etc. They base their argument on the premise that there is no alternative to globalisation ‘Globalise or Perish’ is their maxim. Those who are critical of the present variety of globalisation have adduced evidence to show that the new economic policy will only lead to extreme concentration of wealth and power in the hands of hardly 20% of the global population. The rest will be left to compete for what left over. Multinational corporations have become richer and more powerful than countries and World Trade Organization has started playing political role besides economic. This will create a deeply divided world, an asymmetry that is portentous. So, they argue that we should change our economic policy, take a turn towards an equitable, sustainable and self-reliant path of development. Many believe that there
are thousands of alternative’s others say that if alternatives are not available we must bring in new alternatives. In this context, the present study has come to the conclusion that the model presented by Gandhi as outlined in chapter 6 as it based on self-reliance sustainability equity and justice can provide a viable alternative for a country like India and that the basic approach of Gandhi towards economic development will serve as a suitable guide for the third world countries in general and even for the first world if they are keen on creating a just and sustainable world order.

References and Notes

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