CHAPTER II
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A NEW ECONOMIC OUTLOOK IN INDIA.

A country's economic development depends on the (a) rate of capital accumulation, (b) population growth, (c) discovery of new resources, (d) technological progress and (e) peoples' attitude and initiative toward economic progress. A favourable conjuncture of all these factors are necessary for economic development. The process of economic growth is the end result of successive phenomenon of peoples' savings of a part of their incomes, its effective investment, increased employment, and expansion of the national output and income. This very process goes on and on in ever-growing scales and thereby resulting in further increase in the rate of savings and investment. During the long foreign rule, both savings and investment had been much meager, and consequently India continued to be an underdeveloped economy allthroughout. Due to such underdevelopment, in turn, savings were quite inadequate and this adversely affected national capital formation.
The country was deficient in capital, technical equipment, know-how and technical skill and all the symptoms of a backward economy were rampant.

Foreign capital, chiefly British, came to India and was invested in the railways, plantation, jute, coal-mining and in such other fields so as to ensure supply of materials for the British industries. The economic policy pursued by the foreign rulers was nothing but a colonial laissez-faire and the same was responsible for the lopsided growth of the Indian economy.

As told earlier, before independence, India had practically very insignificant economic relations with other foreign nations. Through Britain, India had some very limited trade relations with some European nations. Foreign relations then were haphazard and more political than economic. Quite naturally, therefore, the trade turnover between India and the U.S.A. was very insignificant.

It is very interesting that, though Indo-US trade took place only through private channels, India continued to enjoy favourable balance of trade all throughout since the First World War till 1946-47. Quantum of export or import was however, insignificant. Thus, during the British rule, Indo-US economic relation was far from encouraging and objective-oriented.
Independence really brought laurels to Indian life. The Constitution of India was adopted and was brought to effect on January 26, 1950. The Constitution focused a new outlook in India; it provided for a large number of Fundamental Rights. The Directive Principles of State Policy related to those matters which the Government of India was to keep in view for the welfare of the people of the country. The Constitution also provided for pursuing the policy of peaceful relation with all the countries of the world for co-existence and mutual progress.

Shortly after independence, Government of India announced the Industrial Policy Resolution on April, 1948. In view of the wide gap between the national savings and required level of investment, the Government accepted the need of encouraging the investment of foreign capital in India. At this stage India's foreign exchange balance was also inadequate. Employment of foreign capital without jeopardising a country's basic policies is not at all an easy and simple problem. But India, with her dynamic approach, could succeed in solving this. Indicating the importance of foreign capital, the then Prime Minister of India Jawaharlal Nehru pointed out that the object of our regulation should, therefore, be the utilisation of foreign capital in a manner most advantageous to the country. Indian capital ought to be supplemented by foreign capital.
not only because our national savings would not be enough for the rapid development of the country on the scale we wished, but also because, in many cases, scientific, technical and industrial know-how and capital equipment could be secured along with foreign capital.

In the light of the emergence of such a new economic outlook just after independence, India continued to have dynamic economic relations with major nations of the world i.e., the U.K., the U.S.A., the U.S.S.R., Canada, Japan and Federal Republic of Germany.

After the World War II, Britain's capacity to supply us with the capital in quantity sufficient to implement our plans was crippled considerably. The U.S.A. as the most affluent country, was therefore, quite naturally, our next preference for capital supply. Since the great depression of 1930s, the United States continued to change her domestic economic policy, as well as, her foreign economic relations by introducing schemes like the New Deals. President Franklin Delano Roosevelt took much pains in shaping his country's domestic and foreign economic policies. During the Second World War also the Roosevelt Government developed a policy of strategic foreign investment through 'Lend Lease' programmes. Since the end of the War, foreign policy of the United States of America had undergone radical changes. Through Marshal Plan and
Truman-Doctrine, the Government of the United States of America diversified the country's policy toward foreign economic relations. But the American aid programmes at this stage were aimed mainly at military purposes of her allies. Therefore, Americans would also like our Government to toe the line of American policy before allowing the investment of American capital in India. But the Indian Government had an independent foreign policy of 'neutrality' and was not prepared to align itself with any power block. Therefore, at the very outset, there was a difference of principles and policies, that hindered the growth of Indo-US economic relations.

A good number of Indian leaders also resented the Government policy of encouraging foreign capital and foreign collaborations for the economic development of the country. On the contrary, prominent economists, both Indian and foreign, favoured the inflow of foreign capital to the underdeveloped countries to bridge the wide gap between savings and capital requirement. Jawaharlal Nehru, on 6th April, 1949 reiterated that development of foreign economic relations and foreign capital investment was inevitable, for a structural and qualitative transformation in the national economy. In this transitional period, the effort to develop the basic and heavy capital industries, without which the growth of the...
national economy would itself be retarded, accentuated the balance of payment problems. Replacement of imports was essentially a question of developing the necessary capacity for production within the country. A developing economy which for its part, endeavours to mobilise its own resources to the utmost extent possible, faced the difficulty that its developmental efforts might entail a large increase in import requirements for specialised capital equipments, raw materials and components, for which, for a period it was unable to pay from its own export earnings. The need for external assistance was, therefore, implicit in this situation.

India needed huge capital supplies, but due to a number of psycho-ideological factors, much of foreign assistance could not be attracted. The United States Government had still very little interest towards Indian affairs. In October, 1949, Jawaharlal Nehru visited this country and sought for economic assistance in the form of agricultural commodities and technical personnel. In spite of growing differences in a number of issues (referred in a successive Chapter) the United States Government allotted on concessional terms some 675,000 tons of grains to India to combat a serious food shortage in 1950.

It is but natural that the growing Indian outlook for a planned economic development, through the process of
Five Year Plans, with the ultimate objective of attaining self-sustained growth producing a higher rate of per-capita income and standard of living of the Indian people could not fail to draw the attention of the advanced countries which came forward to assist and collaborate in the planned process of socio-economic transformation in India. The American people and Government also began to reappraise their policies in view of emergence of such new outlook in India.

"A relatively high target rate of growth of national income, a high rate of population growth and a relatively low rate of per capita income and, above all, a low percentage of savings ratio, taken together, account for India's increasing dependence on foreign assistance in successive Five Year Plans".4

According to Planning Commission, the total national savings and investment in India was only 4.9% of the total National Income in 1950, while in the advanced countries the same was estimated at 15% to 20%. Emphasising the role of savings, the Commission observed "It has an important part to play". The First Plan also observed that in view of the fact that the investment of foreign capital necessitated the utilisation of indigenous resources and also that the best use of foreign capital was as a catalytic agent, for drawing for the larger resources for
domestic investment, it was desirable that such investment should be channelled into fields of high priority. Thus the new national outlook of planned economic growth and expansion in the post-independent India replaced the old static policy of laissez-faire; and quite naturally this new policy paved the way for closer economic relations with major donor nations of the world on whom we had to depend for the supply of capital, technical know-how, capital equipments and such other necessities, including food. In the light of India's general policy of non-alignment and friendliness with all nations the national consensus favoured economic relations with any nation without any political strings. By the way it may be said that India's policy of non-alignment is not only highly responsible for her image among newly emerging nations, but also showed these nations a novel way of democratic economic planning, foreign and mutual economic collaboration in the international sphere without the fear of the colonial exploitation of the past.

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