Chapter III

India’s Economic Policy, Perspective Since Independence

The economic policy of a state includes major macroeconomic factors, which have considerable influence on the economy. These factors are:

- Growth strategy
- Economic Systems
- Economic Planning
- Industry
- Agriculture
- Infrastructure
- Financial and Fiscal sectors
- Removal of Regional imbalances
- Price and distribution controls
- Economic Reforms
- Human Resources and
- Per capita and National Income
Growth Strategy

India’s growth strategy initially was based on soviet planning model, which gave central role to the government in the control and direction of economic activity. Following the soviet experience, it was believed that the savings rate in the economy and the growth rate, could be increased if India invested heavily in the capital goods and heavy industry sectors at the expense of the consumer goods sectors. Since the investment in this sector is high, beyond the capability of the private sector, and profitability was low, it followed that such investments would have to be undertaken by the state.

The second five year plan (1956) was quite clear that unless steps taken to augment rapidly the output of the means of production and also to build up the fuel and energy resources which are so vital to development, the scale and pace of advancement in the coming years will be inhibited.

As far policies to achieve these objectives the plan went on to state that:

“In some cases, fiscal and price incentives may have to be relied on; in others, a licensing system may be essential; in still others, fixation of profit margins, allocation of scarce raw materials or other regulatory device maybe necessary …. If the targets of the planned investments are to be achieved, means have to be found to secure that the necessary resources do infact, become available and are not devoted to consumption.”

The state emerged both as the mobilize of saving as well as important investor and owner of capital. Since the state was to be the primary agent of economic change it followed that private sector activities had to be strictly regulated and controlled to conform to the objectives of the state policy.

Under this policy foreign trade had a relatively small role, partly because of the belief that trade was biased against developing countries and primary producers and partly because of the intellectual conviction that export prospects were severely limited. The first five-year plan (1951) was practically silent on exports.

The above growth strategy followed by the planners in the past four decades has been subject to severe criticism particularly during the late 80s when the era of liberalization was set in motion. The criticisms are: the neglect of exports and trade opportunities, excessive protectionism and import substitution, undue reliance on physical controls, inefficiency of the public sector and total neglect of agriculture.

**Basic Economic Systems**

India chose mixed economy as our economic philosophy. The concept of mixed economy accept the existence of private enterprises along with public ownership. The economic setup under this philosophy is split up in to three parts:

- Sector in which both production and distribution are entirely managed and controlled by the state to the complete exclusion of the private enterprise.
- Sectors in which the state and private enterprise jointly participate in production as well as in distribution and
- Sectors in which private enterprise has complete access subject only to general control and regulation of the state.

The Industrial policy of 1956 has clearly demarcated the areas meant for each of these three sectors of the economy. The concept of mixed economy has guided our economy for the past four decades. Mr. R.Venkatraman, the vice president of India, while delivering G. L. Mehata memorial lecture in 1986 asserted “We have reasons to be satisfied with the progress that has been achieved on this path (economy) under very difficult circumstances external and
internal. This is not to deny, by any means that we have a long way to go in achieving our basic objectives of employment and poverty eradication or to underplay the difficulties and distortions that might have been experienced in the pursuit of mixed economy.”

A mixed economy is necessarily a planned economy in which the government has a clear and definite economic plan. The public sector will have to operate according to certain priorities and to realize specific social and economic goals. Naturally, the public sector should have an economic plan. At the same time, the government cannot have the private sector to function in its own unorganized way.

The government has to prepare and implement a comprehensive economic plan integrating the private sector with the public sector. For these reasons that we have been having economic planning since 1951 when the first five year plan was launched.

We have completed more than five decades of economic planning. All the plans were designed to achieve four important long-term objectives:

- Increase production to the maximum possible extent so as to achieve a higher level of national and per capita income;
- Achieve full employment;
- Reduce inequality in income and wealth and
- Set up a socialist society based on equality and justice and the absence of exploitation.

Massive investments were made in all the five-year plans to realize these objectives.

Following table 3.1 gives the allocation of the plans:
Table 3.1

*Pattern of Resource allocation in India’s plan* (percentage)

<table>
<thead>
<tr>
<th>Heads of Development</th>
<th>I</th>
<th>II</th>
<th>III</th>
<th>IV</th>
<th>V</th>
<th>VI</th>
<th>VII</th>
<th>VIII</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture and Irrigation</td>
<td>37.0</td>
<td>20.9</td>
<td>20.5</td>
<td>23.3</td>
<td>22.1</td>
<td>22.2</td>
<td>20.2</td>
<td>20.6</td>
</tr>
<tr>
<td>Power</td>
<td>7.6</td>
<td>9.7</td>
<td>14.6</td>
<td>18.6</td>
<td>18.8</td>
<td>16.7</td>
<td>17.4</td>
<td>18.7</td>
</tr>
<tr>
<td>Industry</td>
<td>4.9</td>
<td>24.1</td>
<td>22.9</td>
<td>19.7</td>
<td>24.3</td>
<td>26.5</td>
<td>23.7</td>
<td>18.8</td>
</tr>
<tr>
<td>Transport and communication</td>
<td>26.4</td>
<td>27.0</td>
<td>24.6</td>
<td>19.5</td>
<td>17.4</td>
<td>16.0</td>
<td>17.1</td>
<td>18.7</td>
</tr>
<tr>
<td>Social Services</td>
<td>24.1</td>
<td>18.3</td>
<td>17.4</td>
<td>18.9</td>
<td>17.4</td>
<td>18.6</td>
<td>21.6</td>
<td>23.2</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>


*Source: K. Aswathappa, Essentials of Business Environment, Himalaya Publishing House Pg.169*

**Democratic Socialism in India**

**Development of the idea**

The theoretical basis of socialism was provided by Karl Marx and Federick Engles. They believed that to end exploitation from the world, it is necessary to abolish private ownership of the means of production. Following the idea of Marx and Engles, economic planning based on total nationalization was adopted as the means to foster economic growth in Soviet Russia. For the first time in the history of mankind, the Soviet government made concerted efforts to end poverty, hunger, and unemployment according to a carefully prepared economic plan. The success of the plans in the initial years and the rate at which USSR industrialized itself rapidly since 1982 was a great inspiration to many under
developed states. But the high rate of growth in USSR was accompanied by enormous human sacrifice in the form of liquidation of countless millions of people branded as “Enemies of socialism” and brutal suppression of individual freedom.

The tremendous progress achieved by the Soviet Union had an impact on the capitalist countries of the world also. The Great Depression of 1929-33 destroyed people faith in the operation of price mechanism as an automatic self-adjusting mechanism. Keyne’s book ‘End of laissez faire’ and his public works program made a tremendous epoch making influence in abandoning non-interventionism and setting in an era of positive role of the state in the economic and social life of the people. Although the capitalist governments did not lose faith in private property and individual freedom, yet they were convinced that the government could play an effective role in reducing and eventually removing poverty, misery, unemployment and ignorance.

When India became independent, the Indian people were steeped in mass poverty unemployment and under employment. India had an illiterate and untrained labour force, static agriculture with semi feudal relations and comparatively less developed industrial sector and woefully inadequate infrastructure in the form of poor transportation and communication, energy and power, banking and finance etc. Thus India’s problems required a big national effort and therefore, India adopted “planning as a lever of social and economic change.” Jawaharlal Nehru, the architect of Indian planning, greatly admired the achievements of Soviet planning and so borrowed the concept of socialism from Russians but, he also regarded the democratic values of Capitalist society as indispensable for the full growth of a just society. Thus to take advantage of the virtues of two extreme societies which were also undergoing a transformation, Nehru’s vision of the new India was described as “democratic Socialism”.
Socialism and democracy are the means for the creation of a society in India in which all have equal opportunities to education, health, care, employment etc; and exploitation of one class by another is abolished. To foster free and fuller growth of the human personality is the supreme goal of democratic socialism. If poverty and in equality of income and wealth are conceived of as obstacles to the realization of these supreme goals, then it is equally true that the absence of democracy is also an impediment to the realization of this supreme goal. It is therefore, of vital significant to reconcile the ideas of socialism and democracy so as to evolve a new pattern of society in which man can realize his self and his innate nature in a fuller manner an also attain a higher standard of material comfort.

The disintegration of soviet Russia and political and economic upheavals in other east European socialist countries resulting in the introduction of market based economies have proved that the vision of Nehru was conceived of a holistic approach to development rather than having a bias only in favour of economic forces, neglecting the urge for freedom and democracy as a part of the development process, India too has been liberalizing its economy, reducing government control and regulation, but at the same time not throwing over board the Nehruvian ideology of democratic process of dialogue and consensus.
Features of Democratic Socialism

Philosophy of democratic socialism is based on a total vision of society. It implies that material development alone cannot make human life rich and meaningful. Along with higher standard of material comfort and wellbeing, it is imperative that all citizens should have equal opportunities where in ethical and spiritual values needed for enrichment of the individual and communal life can be developed.

The fourth plan memorandum in this context stressed the need “for establishing a progressive and rapidly growing economy based upon high levels of productivity; the application of science and technology and use of man power resources, and truly democratic and socialist society in which burdens and benefits are justly shared.” Thus, along with proposals for maximizing production, a programme of action of action towards reducing economic and social disparities, ensuring a national minimum to the people is an integral part of this philosophy.

The Principal Features of Democratic Socialism Are As Follows

(I) Faith in democratic values for the enrichment of the individual and communal life. The adjective democratic before socialism sharply distinguishes it from the socialism practiced in total Italian Economies. Only a democratic society provides adequate opportunities to the individual for self-expression.

(II) A socialist society aims at the removal of poverty.

(III) A socialist economy aims at reduction of inequalities of income and wealth. Socialism is essentially a movement for redistribution of income in favor of laboring classes of the society. Unless the share of labour in national income improves significantly, socialism can have no meaning to
the masses. The growth of trade unions does help to improve the share of labour but trade unions do not exists in such sectors as agriculture and cottage and small scale industries. In a planned economy it is essential to lay down a policy to bring about reduction of inequalities of income & wealth. The second five year plan observed; “The process of reducing inequalities is a two-fold one. It must raise incomes at the lowest level and it must simultaneously reduce income at the top. The former is, basically the more important aspect, but early and purposeful action in regard to second aspect is also called for”.

(IV) Socialist economy aims at the provision of equal opportunities to all.

(V) Faith in mixed economy.

The relative role of the public and private sectors in a developing country have been outline in the second five - years plan.

(VI) A socialist economy and endeavours to check concentration of economic power and the growth of monopolistic tendencies.

Concentration of economic power in the hands of few individuals is the very negation of the principles of socialism it is therefore necessary to device ways and means to counteract the growth of monopolistic combination through

(a) Extension of the public sector in to fields requiring the establishment of large-scale units and heavy investments.

(b) Widening of opportunities for new entrants.

(c) Setting up of medium and small sized units as well as industries organized on cooperative lines and

(d) Effective exercise of government powers of control and regulation and use of appropriate fiscal measures.

(VII) The basic criterion of economic decision in a socialist economy is not private but social gains.
Conclusion

The process of planned economic development while preserving the institutions of democracy and private enterprise is a complex and difficult one. It is only a courageous and purposive leadership which can create conditions suitable for rapid economic growth and at the same time retain the institutions of a vibrant democracy. The contradiction inherent in the mixed capitalist enterprise system hinders the achievement of the goals of economic planning. The process of economic development can move smoothly, if roles of the private, public and cooperative sectors are clearly defined and also if efforts are made to implement plan programs effectively.

Development Strategy in India

The basic objective of our five years plans were “Development along socialist times to secure rapid economic growth and expansion of employment, reduction of disparities in income and wealth, prevention of concentration of economic power and creation of values and attitudes of a free and equal society.” In order to achieve these objectives, the planners formulated a strategy of planned economic development.

Mahalanobis Model of Growth

It was only with the second plan that there was a clear enunciation of a strategy of development by Indian planners. Prof. P.C. Mahalanobis was responsible for introducing a clear strategy of development based on the Russian experience. This strategy emphasized investment in heavy industry to achieve industrialization which was a basic condition for or paid economic development.
The Mahalanobis investment strategy assigned a dominant role to the public sector. As the investment in the heavy sector was very high and as the gestation period was too long and that to with low profitability, the government went in a big way for the expansion of the public sector.

**Public Sector and Indian Planning**

Prior to 1947, there was virtually no “public sector” in the Indian economy. However, in the post independence period, the expansion of public sector was undertaken as an integral part of the 1956 policy.

The Industrial Policy Resolution of 1956 give the public sector a strategic role in the Indian Economy. The argument for the expansion of the public sector were:

a. To accelerate the growth of the core sectors of the economy.
b. To serve the equipment needs of the strategically important sectors like Railway, Telecommunications, Nuclear Power, Defense, etc.
c. To exert countervailing on the operation of private monopolies and multinationals in selected areas.
d. To insure easier availability of articles of mass consumption, to check prices of important articles, etc. The rational behind setting up consumer oriented industries;
e. To protect employment, the government was forced to take over seek industrial units.
Central Government Enterprises

As on March 31\textsuperscript{st}, 2002, there were 242 central government undertaking excluding banks, financial institutions and departmental undertakings like the railways, post, etc. The growth of investment in central government undertaking is shown in table 3.5. It will be clear from the table that since 1951, the number of industrial and commercial undertaking of the central government had increased from five in 195-51 to 240 units in 2001-2002 and the capital investment had increased from Rs. 29 crores to Rs.3,24,632 crores on March 31\textsuperscript{st}, 2002. The investment is in the form of equity capital and long-term loans.

To understand the role of public sector a comprehensive view of the entire public sector is necessary. The indicators like employment, investment, value of output, national income generated, savings, capital formation and capital stock explain the role of public sector in Indian economy.

Table 3.2, 3.3, 3.4, 3.5 indicate the role of public sector in Indian Economy:

Table 3.2
Public and private sector employment in India

<table>
<thead>
<tr>
<th>Year</th>
<th>Public sector</th>
<th>Private Sector</th>
<th>Total</th>
<th>(In lakhs) as % of 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>1971</td>
<td>71</td>
<td>121</td>
<td>192</td>
<td>55</td>
</tr>
<tr>
<td>1981</td>
<td>155</td>
<td>74</td>
<td>229</td>
<td>68</td>
</tr>
<tr>
<td>1991</td>
<td>190</td>
<td>77</td>
<td>267</td>
<td>71</td>
</tr>
<tr>
<td>2001</td>
<td>191</td>
<td>87</td>
<td>278</td>
<td>70</td>
</tr>
</tbody>
</table>

\textit{Source: Compiled from economic survey (2002-03)}
Table 3.3
Growth of the central government Enterprises

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Units</th>
<th>Total investment (Rs. Crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951</td>
<td>5</td>
<td>29</td>
</tr>
<tr>
<td>1961</td>
<td>47</td>
<td>950</td>
</tr>
<tr>
<td>1980</td>
<td>179</td>
<td>18150</td>
</tr>
<tr>
<td>1990</td>
<td>244</td>
<td>99330</td>
</tr>
<tr>
<td>2001</td>
<td>242</td>
<td>2,74,198</td>
</tr>
<tr>
<td>2002</td>
<td>240</td>
<td>3,24,632</td>
</tr>
</tbody>
</table>

Source: Government of India, Public enterprise survey (2001-02)

Table 3.4
Top ten enterprises in terms of Turn over (2001-02)

<table>
<thead>
<tr>
<th>Name of the enterprise</th>
<th>Rs. in Crore</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Indian Oil Corp. Ltd.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Hindustan petroleum</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Bharat Petroleum Corp. Ltd.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Food Corp. of India</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Bharat Sanchar Nigam Ltd.</td>
<td>24300</td>
<td>5.1</td>
</tr>
<tr>
<td>6. Oil and Natural Gas Corp. Ltd.</td>
<td>23233</td>
<td>4.8</td>
</tr>
<tr>
<td>7. National Thermal Power Corp. Ltd</td>
<td>17911</td>
<td>3.7</td>
</tr>
<tr>
<td>8. Steel Authority of India Ltd.</td>
<td>15684</td>
<td>3.3</td>
</tr>
<tr>
<td>9. Gas Authority of India Ltd.</td>
<td>10573</td>
<td>2.2</td>
</tr>
<tr>
<td>10. IBP Co. Ltd.</td>
<td>8453</td>
<td>1.8</td>
</tr>
<tr>
<td><strong>Sub total (1 to 10)</strong></td>
<td><strong>3,30,387</strong></td>
<td><strong>69.1</strong></td>
</tr>
<tr>
<td><strong>Total turn over of all enterprises</strong></td>
<td><strong>478728</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source: Public Enterprises Survey (2001-02)
The industrial policy is the probably the most important document which indicates the relationship between govt. and business. The industrial policy control the industrial undertakings of a country and shape the pattern of industrialization. It incorporates fiscal and monitory policies, the tariff, policy, labour policy and government's attitude towards external assistance and the public and private sectors also.

**Industrial Policy Resolution, 1948**

The industrial policy resolution of April 1948 is the first important industrial policy resolution issued by the government of India.

Following were the main features of the 1948 industrial policy.

1. Acceptance of the importance of both private and public sectors
2. Division of the industrial sector
The resolution divided industries into four categories were as under

(i) Industries where state had a monopoly:
In this category three fields of activity were specified arms and ammunition, atomic energy and rail transport.

(ii) Mixed sector: In this category six Industries were specified coal from and steel, aircraft manufacture, ship building manufacture of telephone, telegraph and wireless apparatus (excluding radio sets) and mineral oils. However, existing private undertaking in this field were allowed to continue for 10 years after which the government would review the situation and acquire any existing undertaking after paying. Compensation on a "fair and equitable basis"

(iii) The field of government control:
The government did not undertake the responsibility of developing these industries but considered them of such importance that their regulation and direction was necessary. Some of the industries included were: automobiles, heavy chemicals, heavy machinery, machine tools, fertilizers, electrical engineering, sugar, paper, cement, cotton and woolen textiles.

(iv) The field of private enterprise: All other industries (not included in the above three categories) were left open to the private sector. However state could take over any industry in this sector also if its progress was unsatisfactory.
3. Role of small and cottage industries

The 1948 resolution accepted the importance of small and cottage industries in industrial development. These industries are particularly suitable for the utilization of local resources and for creation of employment opportunities.

4. Other important features of the industrial policy:

The role of foreign capital in industrial development of the economy was recognized but the need for regulating and controlling it according to the needs of the domestic economy was deemed essential. Therefore it was stated that in those industries where foreign investment was to be done. Indians should have a major say in the ownership and management. The resolution called for harmonious relations between management and labour since this was necessary for industrial development. For this purpose the resolution enunciated a policy of just labour conditions wherein workers would be given fair wages. For purpose of maintaining industrial peace, labour participation in management was also stressed.

**Industrial Policy 1956**

Since the adoption of 1948 policy significant development took place in India. The country gave itself a constitution, which set out certain directive principles. Economic planning had proceeded on an organized basis and the first five-year plan was already completed. Parliament accepted the "socialist pattern of society" as a basic aim of social and economic policy. This important development policy. A second Industrial Policy Resolution was adopted in April 1956, replacing the resolution of 1948.
Important provisions of 1956 policy resolution were

(i) New classification of Industries:

The industries were classified into three categories, which bear a close resemblance to the earlier classification, but were more sharply defined and were broader in coverage as to the role of the state. These categories were:

Schedule ‘A’

This category included as many as industries. The expansion of these industries would be the exclusive responsibility of the state. These 17 industries listed under schedule ‘A’ were, arms and ammunition, atomic energy, iron and steel, heavy casting and forgings of iron and steel; heavy machinery required for iron and steel production, for mining, for machine tools manufactures; etc heavy electrical industries, coal; mineral oils, mining; iron ore and the other important minerals like copper, lead and zinc; aircraft, air transport, railway transport, ship building; telephone, telegraph and wireless equipment, generation and distribution of electricity.

Under schedule ‘B’12 industries were included which were other mineral industries except those defined in sec. 3 of the minerals concession rules 1949; aluminium and other nonferrous metals not included in schedule ‘A’; machine tools ferro-alloys and tools; drugs; fertilizers; synthetic rubber; carbonization of coal; chemical pulp; road transport and sea transport.

The schedule ‘C’ category industries include the rest of the industries which were thrown open to the private sector but this did not prevent the government to enter in this field. State will facilitate and encourage the development of these industries in private sector by providing infrastructural facilities.
The division of industries into separate categories were not watertight compartments. The basic object was to create a mixed economy in India.

**Industrial Policy Statement, 1977**

In December 1977 the Janata Government soon after it came into power, announced a new industrial policy by way of a statement in the parliament.

**Need For The New Policy**

The industrial policy resolution of 1956 governed the Indian industries for a period of 20 yrs. This policy despite of some desirable elements, has resulted in certain distortions viz. unemployment has increased, rural urban disparities have widened and the rate of real investment has stagnated. The growth of industrial output has been no more than three to four percent per annum on the average. The incidence of industrial sickness has become wide spread and some of the major industries are worst affected.

**The Main Elements Of The New Policy were**

1. Development of Small Scale Sector – The Main Thrust of The Policy

The small sector was classified into three categories:

a. Cottage and household industries which provide self employment on a wide scale;

b. Tiny sector incorporating investment in industrial units in machinery and equipment up to Rs. 1 lakh

c. Small scale industries comprising industrial units with an investment up to Rs. 10 lakhs in case of ancillaries with an investment in fixed capital up to Rs. 15 lakhs.
2. **Areas for large-scale sector:**
   The role of large-scale sector was to meet the basic minimum needs of the population through wide dispersal of small scale and village industries and to strengthen the agricultural sector.

3. **Approach towards large business houses:**
   The concentration of economic power was restricted for which large or dominant units would have to rely on their own, internally generated resources for financing new projects or expansion of the existing one.

4. **Expanding role for the public sector**
   Public sector was charged with the responsibility of encouraging the development of a wide range of ancillary industries and contributing to the growth of decentralized production.

5. **Approach towards foreign collaboration:**
   The industrial policy stated: “In areas where foreign technological know how is not needed, exiting collaboration will not be renewed.”

6. **Approach Towards Sick Units:**
   The policy statement suggested a selective approach on the question of sick units. The public financing for the sick units can not be continued indefinitely.
Industrial Policy 1980

The congress govt. announced its industrial policy in July 1980. The 1956 policy resolution forms the basis of this policy statement. The major thrust of the policy was to regularize the excess capacity installed over and above the licensed capacity. The government also proposed to allow the privilege of automatic expansion of capacity to all industries. Big business welcomed the liberalization of capacity proposed in the 1980 policy, which chose a more capital-intensive path of development.