HS331 - Project Report

Impact of Socio-economic Ideologies on Industrial Sector in India after Independence

Group 4

Premise

The ability of a country to create and sustain economic growth has been a defining issue in the past and also will be in the future. It is arguably the most crucial issue to help solve long term challenges that threaten to upend and suppress the global economy and destabilize the global political order. Until and unless we place global economic growth on a sturdy, sustainable and accelerating path, we will not be able to address the seemingly most intractable challenges of our world today; be they in health, education, environment or economic development, and improving living standards. Therefore, an open minded approach is essential to generate sustainable economic growth. This approach mostly depends on how the economic ideology of the country varies with the social conditions that it is present right now.

This report covers the effect of these socio economic ideologies on the development of the Industrial sector in India since Independence.

India's challenges after Independence

India gained independence from British rule in 1947. The elected leaders of the newly independent country had a huge task at hand. It was to lift the living standards of the people who were about 1/7th of the world's population. The literacy rate was just 14% and the average life expectancy was only 32 years. The average Indian income was only 1/15th of the average American income of the time and 3/4th of the population was engaged in agriculture working with primitive tools and techniques.

Initial Strategy

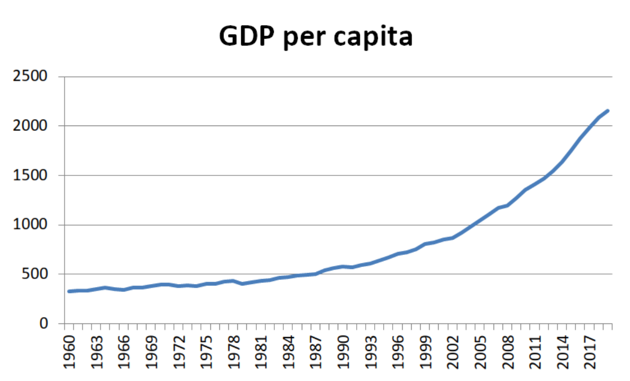
The government in the 1950s implemented five-year plans to achieve rapid industrialization. This involved raising massive amounts of resources like cement, steel, locomotives, chemicals, power, etc, and investing them in the creation of large industrial state-owned enterprises (SOEs).

Majority of India's population was dependent on agriculture. But the leaders pursued Industrialization for economic development because they felt the industrial sector offers the greatest scope of growth in production. The intellectuals of the time were of the opinion that the preeminence of agriculture was the characteristic of a backward economy, and growth in agriculture eventually runs up against the problem of insufficient demand.

Following the **Socialistic** pattern of Industrialization

One of the goals of the government was to establish a "socialistic pattern of society". It wanted to use democratic methods to bring large swathes of the country's productive resources under public ownership. The government wanted to make the country self-reliant for basic and heavy goods. So, industries producing basic and heavy goods were chosen for investment over consumer goods. The socialistic ideology is evident from the following words of the then Prime Minister Jawaharlal Nehru, "To import from abroad is to be slaves of foreign countries".

The production of consumer goods such as clothing, furniture, personal care products, and similar goods was left to small privately run cottage industry firms that had the added advantage of being labour-intensive and therefore a potential generator of mass employment.



Variation of India's GDP per capita in US$ from 1960 to 2019

Most industries were given significant trade protection so that their growth was not hampered by competition from more efficient foreign producers. An industrial licensing system was set up to ensure that private enterprises would not expand beyond the bounds that national planners had set for them. This system was nicknamed "License Raj".

Initial Results

Industrialization was only a moderate success. Despite major cost overruns and several delays, the newly created public enterprises turned out steel, chemicals, and other products that were generally associated with developed countries.

But several problems resulting from this approach were coming to the fore in the 1960s and the 1970s. Many public enterprises were run due to political motives rather than economic considerations, so they produced losses. These enterprises could not generate mass employment as the nature of work was based on skill rather than being labor-intensive. Some enterprises were overstaffed and due to less demand, remained idle most of the time.

The expenditures necessitated by the massive investments in SOEs generated new problems. One government method for financing expenditures was the creation of new money, which resulted in significant inflation. This caused black markets to flourish, and the government found itself resorting to increasingly intrusive regulations and engaging in cat-and-mouse games with traders.

The License Raj system which was designed to ensure that the private sector operated according to the five-year plans, became a source of much inefficiency and corruption. The micromanagement of the private sector called for much more knowledge and technical ability than government bureaucrats possessed. The system descended into a mechanism for rewarding political supporters of the rulers, which undermined the confidence of the people in the integrity of their governmental institutions.

Change in Strategies

During Indira Gandhi's tenure as the Prime Minister, the strategy toward industry turned more interventionist. The new policy stance displayed a suspicion of large firms and a preference for the small. The licensing system imposed additional restrictions on the activities of large firms, curtailing their growth. Production of consumer goods such as apparel, footwear, furniture, sporting goods, office supplies, leather goods, and kitchen appliances were reserved by law for production by small firms. Foreign firms were asked to dilute their ownership stake in their Indian subsidiaries and in response, multinationals such as IBM and Coca-Cola closed their operations and left the country.

Since the consumer goods were reserved for the small industries, the advantage of economies of scale were gone, resulting in high prices and poor quality, which the foreigners shunned. Also, the countries like Taiwan and South Korea flourished, exporting this category of goods and thus, "imported" goods became synonymous to "high-quality" goods. Between 1966-80, The per-capita income growth was a mere 1% which was too low to make a dent in the country's massive poverty. Even after 35 years of Independence, India's leadership had not yet fulfilled its pledge of lifting living standards.

Change of Policies

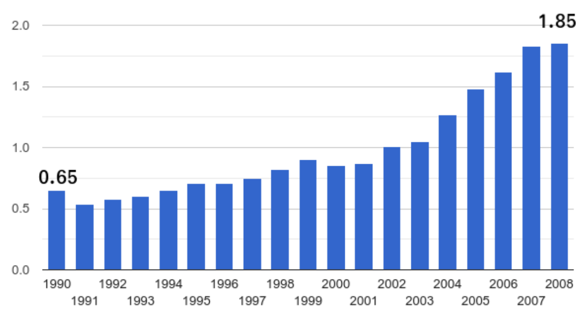
The strategy followed during Indira Gandhi's tenure caused economic stagnation and high inflation. People's rising expectations on the promised rapid development caused political unrest and agitation. In response, then Prime Minister, Indira Gandhi declared national emergency in 1975.

By the 1980's, it became clear that the government did not have the capacity to run a controlled economy that delivered on economic growth. Since the failures were exposed, Indira Gandhi acquiesced to relaxing some of the restrictions on industrial activities. Her successor, Rajiv Gandhi, enacted further liberalization. Certain industries and business activities were exempted from licensing requirements. Such measures helped to cause robust industrial growth in the late 1980s.

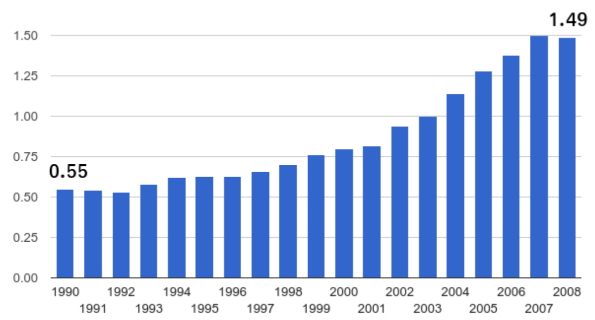
When a foreign exchange shortage threatened a crisis again in 1991, the government made a clear break with past policies. At the behest of the International Monetary Fund (IMF), which provided rescue during the foreign exchange crisis, but also of its own accord, the government announced major economic reforms. It dismantled the License Raj almost overnight, slashed tax rates and import duties, removed controls on prices and entry of new firms, put up several SOEs for sale, and rolled out the welcome mat for foreign investors. Rather than socialism, the guiding principles of policy now were liberalization, privatization, and globalization.

The Positives

The economy responded with a surge in growth, which averaged 6.3 percent annually in the 1990s and the early 2000s, a rate double that of earlier time frames. On the eve of the reforms, the public telecom monopoly had installed five million landlines in the entire country and there was a seven-year waiting list to get a new line. In 2004, private cellular companies were signing up new customers at the rate of five million per month. The number of people who lived below the poverty line decreased between 1993 and 2009 from 50 percent of the total population to 34 percent. The country's share in world trade increased from 0.4 percent in 1991 to 1.5 percent in 2006, and foreign exchange reserves increased by US $350 billion. The increase in India's involvement in World Trade is evident from the increase in India's share of World imports and exports as in below graphs.



India's share of World Imports



India's share of World Exports

The Negatives

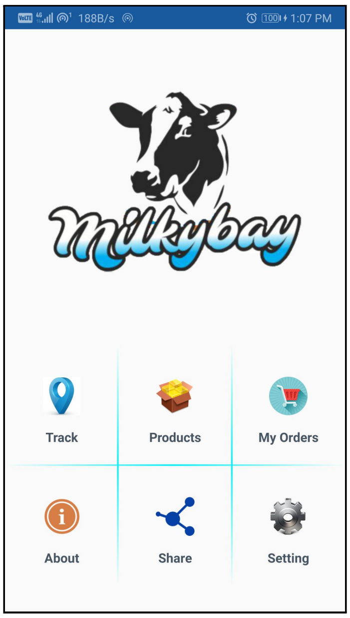
The liberalization policy has only increased the productivity of the sectors with services and capital-intensive manufacturing like pharmaceutical and IT. India's pharmaceutical and IT sectors are renowned in the global market. The job opportunities for people in these sectors have increased, thanks to liberalization. But, such industries employ only skilled workers and there are millions of low skilled workers in the country who didn't have the same benefits.

Companies do not prefer setting up labour-intensive manufacturing in India because of two reasons. First, the country's infrastructure is relatively deficient, and so companies that practice just-in-time inventory management do not find it cost-effective to include India in their global supply chains. Second, the labour laws are restrictive, which causes them to look for other countries for unskilled labour. Liberalization of labour laws is never an option as it tends to run into fierce political opposition.

A Step Forward - Suggestions

Since the outreach of Liberalization in 1991 was reduced to the big cities only, the following measures could be taken to increase the outreach:

- The need is to make even the remote areas self-reliant, and find opportunities for themselves. If the population in these areas are educated and are upskilled, the people get to understand and utilize the present resources available better. For example, the first picture below is a screenshot of an Android App called MilkyBay. It was made by Aman Jee, an IIT Patna student, to help milkmen of his village manage their businesses.
- The establishment of special economic zones (SEZ) in towns will increase the land rates there. This could help to shift the industrialization from big cities to the towns.
- Investing in the indigenous Research and Development so that the country becomes a cradle for innovation, providing the people with high-quality and low price products and services.



References

1. Socio-economic Development in India: A Regional Analysis, https://www.researchgate.net/publication/23746731_Socio-economic_Development_in_India_A_Regional_Analysis
2. Variation of Life expectancy at birth in India, from 1960-2018, https://data.worldbank.org/indicator/SP.DYN.LE00.IN?locations=IN
3. Social Economic Aspects of India's Development, https://www.emerald.com/insight/content/doi/10.1108/03068298910133089/full/html?skipTracking=true
4. Social Investment Landscape in Asia, Country - India, https://avpn.asia/si-landscape/country/india/
5. Variation of India’s GDP per capita, from 1960-2019, https://data.worldbank.org/indicator/NY.GDP.PCAP.KD?end=2019&locations=IN&name_desc=false&start=1960&view=chart
6. The History of Economic Development in India since Independence, https://www.asianstudies.org/publications/eaa/archives/the-history-of-economic-development-in-india-since-independence/

7. Variation of India’s percentage share in world exports, https://www.theglobaleconomy.com/India/share_world_exports/
8. Variation of India’s percentage share in world imports, https://www.theglobaleconomy.com/India/share_world_imports/

Group 4: Contributions

Roll No	Student Name	Contributions
1801CS14	Basa Sai Rohan	Search for Content Statistics Collection Answering chatbox questions
1801CS17	Chanti Sai Venkata Reddy	Slide Preparation Presentation Report Making
1801CS18	Dacharla Venkata Rao	Slide Preparation Answering chatbox questions Report Making
1801CS19	Devanshu Raj	Search for Content Statistics Collection Answering chatbox questions
1801CS21	Harsh Gupta	Search for Content Presentation Report Making
1801CS22	Hrishabh Raj	Slide Preparation Presentation Answering chatbox questions
1801CS23	Jella Sri Harsha Vardhan Prasad	Statistics Collection Presentation Report Making
1801CS26	Kalluri Ameeth	Statistics Collection Slide Preparation Answering chatbox questions
1801CS28	Kolaparthi Vamsi	Slide Preparation Answering chatbox questions Report Making
1801CS29	Kundarapu Harshavardhan	Search for Content Statistics Collection Answering chatbox questions
1801CS31	Maramreddy Maheeth Reddy (Screen Presenter)	Slide Preparation Presentation Report Making