HS4.108 Making of Contemporary India

Assignment 3

Q:

Why did India's GDP not grow faster in the first four decades of its independence?

Read:

- The Nation as an Imagined Economy
- The Political Economy of Development of India

Ans:

Having a stable and growing economy is one of the essential factors for any independent nation to sustain itself. There are various parameters on which the economy's performance can be determined. There are various debates around the best way to measure the economy's growth, and most debates narrow down to GDP as the best indicator of the economy. Gross Domestic Product (GDP) measures the monetary value of final goods and services produced in a country in a given period (for example, a quarter, six months or a year). And the GDP growth rate is a yearly (or quarterly) comparison of a country's GDP change. While GDP is an indicator of the size of any economy, the GDP growth rate indicates economic growth. A positive GDP growth rate signifies that the economy is growing, and a negative GDP growth rate means the economy is receding.

India was the world's biggest economy for almost two millennia, from the 1 st century to the 19 th century. However, after the colonial invasion, India came from the most significant economy to a third world country. India's per capita GDP CAGR growth was only 0.07% from 1901-1947. And that's why After independence, having a stable economy was a big challenge for India. When India gained independence, its population was 340 million and only 12% literates, and the economy was $30.6 B. After gaining independence, India followed the socialist economic model. Banks and other financial institutions and industries such as the coal, oil, mining industries were nationalised. Also, the foreign products faced heavy import duties. The government kept an eye on almost all industries, and businesses had to operate under strict scrutiny, and the state-financed the private businesses as an all-pervasive entrepreneur. India's strategy was to establish a socialist society through economic growth, self-reliance and poverty alleviation. The aim was to achieve these objectives using an economic mechanism in which the public and private sectors coexist within a democratic political framework.

The first five-year plan (1951-1956) aimed to raise domestic savings and the nation to revive itself from British rule and the chaos created due to partition. Many politicians believed India could be truly independent when it become self-reliant and does not depend upon other nations. It could be done only by promoting the local businesses. To encourage domestic businesses, the government imposed heavy import duties on foreign products. Buying Indian goods rather than foreign goods became parallel with the sense of nationalism. It was a byproduct of the swadeshi movement when the leaders of the Indian independence campaign boycotted the British products. And it became a moral duty of an Indian to use Indian products.

The other reason for promoting local businesses is to stand against the technological advancements Europe achieved after industrialisation. The foreign products were cheaper due to massive production and better quality. If India opened as a free market, there was no chance for Indian businessmen to survive against them. It was also why foreign goods had heavy import duties, so the Indian industry now had the opportunity or time to compete with foreign brands. When India gained independence, 70% of the population relied on agriculture, and in 1947, agriculture contributed to 54% of the GDP. The over-dependence of the population on agriculture was alarming to the government, and the second five-year plan (1956-1961) or Nehru-Mahalanobis Plan, emphasised the development of heavy industries. Nehru wanted India to develop into an industrial power. The Indians unite to have a modern and liberal point of view of world affairs, modify their beliefs, and leave behind outdated customs.

The industrialisation strategy elaborated by Professor Prasanta Chandra Mahalanobis emphasises the development of heavy industry and envisages the public sector playing a leading role in the economy. The role of the government was to develop the industrial sector. The industrial policy also aimed at self-reliance, elevating small-scale industries for better growth rates, achieving regional development, fight against foreign domination and disparities in income. The policy suggested that state investment allocation, permits and other regulatory controls guide the development of Indian industry based on a closed economy, which led to the era of licence raj. A group of 8 influential industry typhoons, including GD Birla and JRD Tata, envisioned a massive public sector with state regulations and interventions to protect the indigenous industries. Still, the state continued to enjoy the leading role.

This approach towards the economy is known as Nehruvian economics. The Indian state followed this approach with minor changes from time to time for the first four decades of independence. Even after he died in 1964, his ideas continued to influence the policies of the Indian state for a long time. And the GDP contribution of various sectors for the same time is as follows:

TABLE : GROWTH RATE OF GDP AND ITS SUB-SECTOR OVER SUCCESSIVE DECADES

	Industry	1950-51/ 1959-60	1960-61/ 1969-70	1970-71/ 1979-80	1980-81/ 1986-87
1	Agriculture, forestry and fishing	2.7	1.5	1.7	2.3
	1.1 Agriculture	2.9	1.3	1.9	2.6
2	Mining and quarrying	4.1	5.0	4.6	10.2
3	Manufacturing	6.1	4.7	4.9	8.2
4	Electricity, gas and water supply	10.2	11.5	7.4	9.9
5	Construction	5.9	6.9	3.1	3.0
6	Trade, hotel and restaurant	5.1	4.5	4.9	5.4
7	Transport, storage and communication	5.7	5.5	6.4	7.8
8	Finance and real estate	3.1	3.1	4.4	6.1
	8.1 Banking and real estate	7.7	5.0	7.8	10.3
9	Community, social and personal services	3.5	5.2	3.7	6.2
	9.1 Public administration and defence	5.2	7.6	4.9	7.5
	Gross domestic product	3.7	3.3	3.4	5.1

Note: All growth rates are statistically significant at 95 per cent.
Source: Central Statistical Organisation [1989a and 1989b].

And we can observe that during the first four decades, the sectors involving industrialisation continued to do good after facing many setbacks and issues. Agriculture slowly lost its charm in GDP because of ignorance.

Considering why India's GDP did not grow faster in the first four decades of its independence, blaming any particular policy or individual is not the right approach. Instead, the slow growth was just the outcome of the policies believed to be for the country's best interests at that time, and we should focus on why industries never boomed in India as Nehru envisioned. During the first four decades post-independence, the Indian economy contracted five times, in 1965, 1966, 1972 and 1979. Also, one of the main reasons for slow growth is the lack of public investments necessary for expanding industries.

With time, leaders such as Chakravarti Rajagopalachari turned critics of Nehru's extensive involvement in economic policies. India was a closed market, and private investments were also low because of the state's extensive participation in a leading role in business. Low public investments in various industries lead to failure in developing proper infrastructure for the industry, which is necessary for any industry to rise. It was a cumulative effect, and the absence of infrastructure continued to prevail. The lack of development of railways led created problems of transportation for various industries, and the lack of resources created electricity issues in various factories. Due to a lack of investments and an increase in production capacity, inflation kept on rising. And due to inflation, the prices of capital and resources for production increased, leading to a decrease in the productivity of many industries, which eventually reduced private investments. Low public investments, decreasing productivity and increasing prices for raw materials and secondary problems such as lack of electricity and transportation never allowed the industries to scale up production and opt for advanced production methods. Also, after the licence raj, it became difficult for new players to enter the game, and the diversity of departments made it challenging to enter the most specific industries.

In the constant quest for industrialisation, allocating funds to agriculture was reduced. Agriculture contributed only 14% of GDP in the second plan and 54% in 1947. The ignorance of the state towards the primary sector is considerable for the slow growth of GDP and over-dependence of the population too. Food shortage worsened the situation, and the country was hit with famine in Bihar in 1966, and droughts in Maharashtra only helped the inflation spike. The constant import of foodgrains and aid from foreign countries slowly became a serious threat to the Indian political economy. Lal Bahadur Shastri tried to revive the agriculture sector with the Green Revolution, but the revolution limited itself to Haryana, Punjab and Western Uttar Pradesh.

TABLE : GROWTH RATE OF REAL GDP AND ITS MAIN SECTORS, 1951-52 TO 1987-88

	Primary	Secondary	Tertiary	GDP
1951-52/1959-60	2.7	6.0	4.0	3.6
1960-61/1969-70	1.6	5.3	4.3	3.2
1970-71/1979-80	1.8	4.6	4.5	3.4
1980-81/1987-88	2.1	6.9	6.3	4.9

Source: Central Statistical Organisation [1989a and 1989b].

The other reason for the economy to suffer was the constant war with the neighbouring countries. India's GDP growth was only 2.93% after the Sino-Indian War of 1962. And it was negative in 1965, 1966 and 1972 when India had two wars with Pakistan.

An expensive and corrupt bureaucracy was also a reason for the slow growth of the GDP. Civil servants often went on strike for higher wages, promotions, and bonuses. The bureaucracy started losing efficiency, with many public servants having almost zero accountability for public duty. Feroze Gandhi proposed The Mundhra Scandal, the first significant financial scam of free India, which started the debate in Lok Sabha and exposed the nexus of small entrepreneurs, bureaucracy, and stock market speculators. He found evidence that under govt pressure, LIC bought fraudulent shares worth Rs. 12.4 lacs, the most significant investment by a public sector entity, without consulting the investment committee. It led TT Krishnamachri to resign, who was then finance minister.

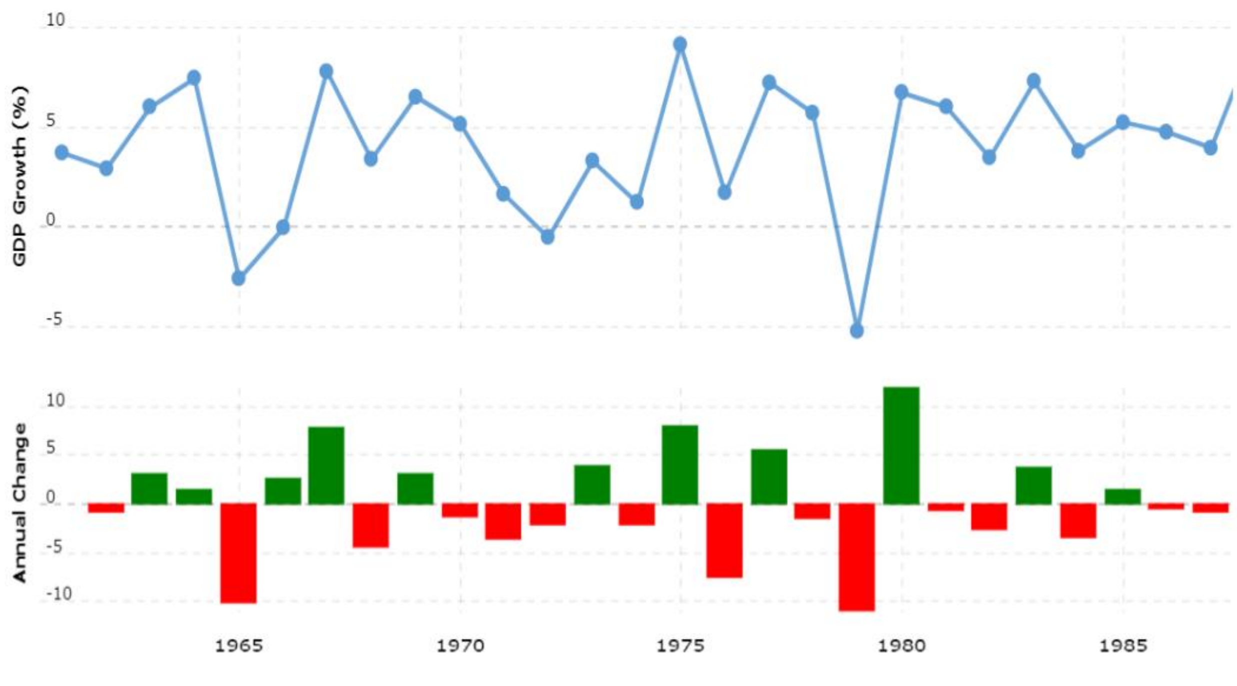
The politics of votes also became a barrier to developing Indian GDP. Indira Gandhi aimed to align banks with socialism to gain popularity among the masses. Although banks reached the rural area to increase their financial savings, it made many lenders complacent. Due to corny capitalism and pleasing political individuals, the state banks gave too many loans, resulting in Rs 10 Trillion of bad loans today.

Now, if we analyse the yearly GDP growth rate, we see:

Year	GDP growth rate	Annual Change in GDP growth rate
1961	3.72%	-0.79%
1962	2.93%	-0.79%
1963	5.99%	3.06%
1964	7.45%	1.46%
1965	-2.64%	-10.09%
1966	-0.06%	2.58%
1967	7.83%	7.88%
1968	3.39%	-4.44%

1969	6.54%	3.15%
1970	5.16%	-1.38%
1971	1.64%	-3.51%
1972	-0.55%	-2.20%
1973	3.30%	3.85%
1974	1.19%	-2.11%
1975	9.15%	7.96%
1976	1.66%	-7.49%
1977	7.25%	5.59%
1978	5.71%	-1.54%
1979	-5.24%	-10.95%
1980	6.74%	11.97%
1981	6.01%	-0.73%
1982	3.48%	-2.53%
1983	7.29%	3.81%
1984	3.82%	-3.47%
1985	5.25%	1.43%
1986	4.78%	-0.48%
1987	3.97%	-0.81%

The bar graph representation of the above data is as follows:



As an independent nation, the above bar graph shows that India was taking baby steps towards becoming a superpower. Still, the lack of proper implementation never allowed the GDP growth rate to increase. Instead, the growth rate decreased after every increment. If we consider eight years, we observe that the growth of the Indian economy was slow but stable despite various setbacks.

TABLE : GROWTH RATE OF REAL GDP FOR SUCCESSIVE EIGHT-YEAR PERIODS FROM 1951-52 TO 1987-88

Year	Growth Rate (Per Cent Per Annum)	Year	Growth Rate (Per Cent Per Annum)
1951-58	3.6	1967-74	3.6
1952-59	3.7	1968-75	2.9
1953-60	3.6	1969-76	3.0
1954-61	3.7	1970-77	2.9
1955-62	3.8	1971-78	3.4
1956-63	3.8	1972-79	4.2
1957-64	3.9	1973-80	3.9
1958-65	4.4	1974-81	3.7
1959-66	3.7	1975-82	3.7
1960-67	3.2	1976-83	3.4
1961-68	3.0	1977-84	3.9
1962-69	3.0	1978-85	4.0
1963-70	3.3	1979-86	4.6
1964-71	3.5	1980-87	5.2
1965-72	3.6	1981-88	4.9
1966-73	3.9		

Source: Central Statistical Organisation [1989a and 1989b].

As the value oscillates between 3 and 5 for India majorly, the exact data for many sub-Saharan countries is more than 5. And here, we can say that the Indian GDP did not grow to its fullest potential in the first four decades of independence.

References

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