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Updated: October 17, 2014 01:10 IST

**The economic consequences of Nehru**

**While the failure to initiate a programme of building the capabilities of a majority of Indians is a moral failure, we would be missing the larger perspective if we do not recognise the economic significance of the short Nehru era in the long haul of India’s history**

A call to burn history books has upped the ante as the 125th birth anniversary of Jawaharlal Nehru approaches. The trouble with history though is that it would be prudent for us to first learn its lessons lest we end up repeating our mistakes. As Nehru was India’s longest serving Prime Minister, and both triumph as well as tragedy had accompanied his tenure, this is a fit occasion for a public debate on what had been attempted in the Nehru era and the extent of its success. I must per force confine myself to the economics. This, though would serve as a corrective to the tendency of political historians to most often concentrate on the other aspects of his leadership. For instance, Sarvepalli Gopal’s noted three-volume biography bestows a single chapter on Nehru’s economic policy. However, reading through the speeches of Nehru, we find that the economy had remained his continuing preoccupation even amidst the debates on social policy in the Lok Sabha and on decolonisation in the United Nations. Reading them is in any case advisable, as strongly held [positions[http://cdncache-a.akamaihd.net/items/it/img/arrow-10x10.png](http://www.thehindu.com/opinion/lead/the-economic-consequences-of-nehru/article6503716.ece)](http://www.thehindu.com/opinion/lead/the-economic-consequences-of-nehru/article6503716.ece) on the economy in the Nehru era have often been crowded in by ideological predilection when they have not been clouded over by ignorance.

**Nehru-Mahalanobis strategy**  
  
The objective of the economic policy in the 1950s was to raise per capita [income[http://cdncache-a.akamaihd.net/items/it/img/arrow-10x10.png](http://www.thehindu.com/opinion/lead/the-economic-consequences-of-nehru/article6503716.ece)](http://www.thehindu.com/opinion/lead/the-economic-consequences-of-nehru/article6503716.ece) in the country via industrialisation. The vehicle for this was the Nehru-Mahalanobis strategy, the decision on this having been taken as early as 1938 by the National Planning Committee of the Congress constituted by Subhas Chandra Bose during his all-too-brief and ill-fated presidentship of the party. The committee was chaired by Nehru. The cornerstone of the strategy was to build machines as fast as possible as capital goods were seen as a basic input in all lines of production. While a mathematical model devised by Prasanta Chandra Mahalanobis had lent a formal status to the strategy, it was the so-called “plan frame” that had guided the allocation of spending. In retrospect, the allocation of investment across lines of production in the Second Five-Year Plan was quite balanced with attention given also to infrastructure, the building of which — given the state of the economy then — the public sector alone would have initiated.

The Nehru-Mahalanobis strategy had criticised even at the outset. I shall discuss two of the criticisms at this stage and turn to a third at a later stage. Thus, Vakil and Brahmananda argued that the Mahalanobis model neglected wage goods, being those consumed by workers who were the majority of the country. While important per se, in practical terms, this criticism turned out to be somewhat academic as the plan frame — as opposed to the model — had given due importance to agriculture. In fact, the Green Revolution which is dated from the late 1960s cannot entirely be divorced from the attention paid to agriculture in the Nehru era. The ‘Grow More Food’ campaign and the trials in the country’s extended agricultural research network both contributed to it. Next, B.R. Shenoy had famously dissented from his fellow economists by querying the use of controls as part of the planning process. Shenoy’s is a well-known [position[http://cdncache-a.akamaihd.net/items/it/img/arrow-10x10.png](http://www.thehindu.com/opinion/lead/the-economic-consequences-of-nehru/article6503716.ece)](http://www.thehindu.com/opinion/lead/the-economic-consequences-of-nehru/article6503716.ece) in economic theory that the allocative efficiency of the competitive market-mechanism cannot be improved upon. While this is a useful corrective to ham-handed government intervention, it was known even by the 1950s that a free market need not necessarily take the economy to the next level. The Pax Britannica had been a time of free markets, though coated with political repression, and this had not helped India much during the two centuries since Plassey. Moreover, many of the extant controls were wartime controls that had not been rescinded. Investment licensing though was a central element in planning in India and Shenoy was right in identifying it as such.

**An economy quickened**  
  
As the maxim “the proof of the pudding lies in the eating” must [apply[http://cdncache-a.akamaihd.net/items/it/img/arrow-10x10.png](http://www.thehindu.com/opinion/lead/the-economic-consequences-of-nehru/article6503716.ece)](http://www.thehindu.com/opinion/lead/the-economic-consequences-of-nehru/article6503716.ece) most closely to matters economic, the Nehru-Mahalanobis strategy can be considered only as good as its outcome. It had aimed to raise the rate of growth of the economy. With the distance that half a century affords us and the aid of superior statistical methods, we are now in the position to see that its early success was nothing short of spectacular. Depending upon your source, per capita [income[http://cdncache-a.akamaihd.net/items/it/img/arrow-10x10.png](http://www.thehindu.com/opinion/lead/the-economic-consequences-of-nehru/article6503716.ece)](http://www.thehindu.com/opinion/lead/the-economic-consequences-of-nehru/article6503716.ece) in India had either declined or stagnated during the period 1900-47. Over 1950-65, its growth was approximately 1.7 per cent. India’s economy, which was no more than a colonial enclave for more than two centuries, had been quickened. It is made out that this quickening achieved in the 1950s was no great shakes as the initial level of income was low and a given increase in it would register a higher rate of growth than at a later stage in the progression. This confounds statistical description with economic assessment. It is a widely recognised feature of economic growth that every increase in wealth makes the next step that much easier to take due to increasing returns to scale. The principle works both ways, rendering the revival of an economy trapped at a low level of income that much more difficult. It is worth stating in the context that the acceleration of growth achieved in the 1950s has not been exceeded since. Also, that India grew faster than China in the Nehru era.

*http://www.thehindu.com/multimedia/archive/01832/quote_left_1832862a.pngThe acceleration of growth achieved in the 1950s has not been exceeded since. Also, India grew faster than China in the Nehru era http://www.thehindu.com/multimedia/archive/01832/quote_right_1832863a.png*

So if the Nehru-Mahalanobis strategy had led to such a good start, why were the early gains not sustained? The loss of an early vitality in the economy had to do partly with political economy and partly with a flaw in the strategy itself. The death of Nehru created a crisis of leadership in the Congress Party which was communicated to the polity. It took almost a decade-and-a-half for stability to be restored. The instability impacted the governance of the public sector, and public investment which had been the engine of growth since the early 1950s slowed. Additionally, the private corporate sector, which contrary to conventional wisdom had flourished under Nehru, was initially repressed by Indira Gandhi. Private investment collapsed. This held back the acceleration of economic growth.

**Neglect of primary education**  
  
Even though we now have reason to believe that the mechanism of long-term growth that remains to this day, which is that of cumulative causation, had been ignited by the Nehru-Mahalanobis strategy, the strategy itself was incomplete. This is best understood by reference to the Asian Development Model as it had played out in the economies of east Asia. These economies had pursued more or less the same strategy as India in that the state fostered industrialisation. But a glaring difference marks the Indian experience. This was the absence of a serious effort to build human capabilities via education and training. In the east this had taken the form of a spreading of schooling, vocational training and engineering education. In India, on the other hand, public spending on education had turned towards technical education at the tertiary level too early on. The slow spread of schooling ensured that the growth of productivity in the farm and the factory remained far too slow. Now the pace of poverty reduction also remained slow, and, via positive feedback, slowed the expansion of demand needed for faster growth of the economy.

It is intriguing that the issue of schooling did not figure majorly among India’s planners, especially as it was a part of Gandhi’s Constructive Programme. This had not gone unnoticed even at that time. B.V. Krishnamurthi, then at Bombay University, had pointed out that the priorities of the Second Five-Year Plan undergirded by the Mahalanobis model were skewed. He castigated it for a bias toward “river-valley projects,” reflected in the paltry sums allocated to education. But it was the argument advanced by him for why spending on schooling matters that was prescient. He argued that education would enable Indians to attend to their livelihood themselves without relying on the government, thus lightening the economic burden of the latter, presumably leaving it to build more capital goods in the long run as envisaged in the Mahalanobis model. But this was not to be, with enormous consequences for not only the economy but also the effectiveness of democracy in India.

While the failure to initiate a programme of building the capabilities of the overwhelming majority of our people is a moral failure of colossal proportions, we would be missing the wood for the trees if we do not recognise the economic significance of the short Nehru era in the long haul of India’s history. It was path-breaking in that a moribund economy had been quickened. This would have been the precondition for most changes in a country with unacceptably low levels of per capita income. It is yet to be demonstrated how this could have been achieved in the absence of the economic strategy navigated through a democratic polity by Jawaharlal Nehru.

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