

## 4 Economic Development

This Chapter includes a study of the mixed economy, five year plans and their successes and failures, nationalisation of banks, 20-point programme, mill workers' strike and especially the New Economic Policy of 1991.

### Mixed Economy :

Brainstorming about the kind of economy we would adopt after independence started much before India got independence. Our Prime Minister Pandit Nehru adopted the middle path rather than taking recourse to any extremes. Some countries had adopted capitalism, while some had adopted socialism. Each type of economy had its own advantages. In a capitalist system, the means of production are privately owned. In a socialist economy, the means of production are owned by the State in the name of the society. A mixed economy works both in the private and the public sector. In order to achieve economic development of modern India, we gave preference to a model of 'mixed economy'.

We can see three parts in this kind of economy :

**(A) Public Sector :** The industries in this sector are completely under the control and management of the government. For example, production of defence equipment.

**(B) Private Sector :** The industries in this sector are owned by private industrialists. Of course, the government supervises and controls them too. For example, consumer goods.

**(C) Joint Sector :** In this sector, some industries are owned by private industrialists, while some are run under government management. For mixed economy to run smoothly there is a need for coordination between the private sector and the public sector. This system aims at maximisation of production and popular participation on a large scale. An effort has been made in this system to bring together the good aspects of both the capitalist and the socialist systems. A mixed economy cannot ignore the profit motive, entrepreneurship, discipline, time bound planning, etc.

A mixed economy also naturally tends to give priority to national interest. Long term development is stressed upon with priority. The industries like defence, scientific research, education, roads, railways, waterways, sea port and airport development require huge capital investment but the returns in these areas are delayed. Not many private industrialists are keen to invest in these areas. In such a situation, the government has to take the initiative.

Thus, India adopted the mixed economy model and five year plans and started off on its path of development. The industrial policy of 1973 increased the speed of development. Priority was given in this policy to control the influence of heavy industries, industrial families and foreign industries and remove the imbalance in regional development. The government focused on the development of small scale industries and cottage industries. Government also started paying more attention to the cooperative sector.

## Five Year Plans

The colonial power had exploited India economically. The country faced severe problems like poverty, unemployment, population growth, low standards of living, low productivity of agriculture and industries and backwardness in the fields of knowledge, science and technology. Planning was essential to solve these problems. India established the Planning Commission in 1950 with Prime Minister Pandit Jawaharlal Nehru as its Chairman. It formulated India's five year plans that included rural and agricultural development, balanced industrialisation, provision for a minimum standard of living and economic development consistent with democratic ideals. It focused on people's participation and individual development in the formulation and implementation of the five year plans.

**Fundamental Principle of planning :** A general principle of planning is the proportionate distribution of the resources of a country and the appropriate use of the human resources to fulfil the needs of the people.

## Goals of Plans

The general goals of the economic planning of India are as follows:

Increase in the national income.

Bring about rapid industrialisation by focusing on the basic industries.

Bring about an increase in agricultural production so that the country becomes self-sufficient in food grain production.

Use the human resource in the country optimally by making increasing employment opportunities available.

Remove the inequality in earnings and wealth.

Maintain stable prices of commodities.

Bring the growth in population under control by family planning.

Improve the standards of living by eradicating poverty.

Develop social services.

Make the economy self-sufficient.

## First Five Year Plan (1951-1956) :

The expenditure in this plan was primarily on agriculture, social development, irrigation and flood control, sources of energy, rural and small industries, heavy industries and minerals, transport and communication, education and health. This plan consisted of measures to lay the foundations of planned economic development.

## Second Five Year Plan (1956-1961) :

This plan had ambitious goals of industrialisation.

Iron and steel industries at Durgapur,  
Bhilai and Rourkela;  
Chemical fertilisers plant at Sindri;  
Rail engine factory at Chittaranjan;  
factory of railway bogies at Perambur;  
Ship building factory at Vishakhapatnam and other heavy industries were set up in the Public Sector.  
Huge dams like Bhakra- Nangal, Damodar, etc. were built to make water available for agriculture. It led to increase in the national income.

**Third Five Year Plan (1961-1966) :** This plan was aimed at bringing about a balance in industries and agriculture. The other goals of the plan included increase in national income, heavy industries, development in transport and mineral industry, alleviation of poverty and to expand the opportunities for employment. After the third five year plan, three one year plans were implemented (1966 to 1969). This was a period of intense famine. Due to the invasion by China and war with Pakistan, the government had to focus on defence rather than development related tasks. Also the famine required the government to undertake measures to tackle the effects of famine. All these issues stressed the Indian economy greatly.

**Fourth Five Year Plan (1969-1974) :** The intentions behind setting the goals of this plan were that India should become self-reliant, government should develop the basic industries, increase the speed of economic development and pay attention to establishing a socialistic pattern of society. 14 major banks in the country were nationalised. This plan did not succeed as expected. The economy had to bear the burden of the Bangladesh War. The expenditure over the refugees had to be borne as well. The Indian economy suffered due to the pay raise of government and railway servants and rise in the prices of petrol in the international markets.

**Fifth Five Year Plan (1974-1979) :** This plan was designed with the goal of making India economically self-sufficient by alleviating poverty. The objectives of the Fifth Plan were as follows : increase the national income, make large scale employment available, supply education, nutritious food and drinking water, to make facilities of medical treatment available in rural areas, to supply electricity and means of communication, implement social welfare schemes on a wide scale, bring about the development of agriculture, increase the basic industries, purchase food grains and other life sustaining goods by monopoly purchase and make them available to the poor at reasonable prices through a public distribution system. During the fifth plan, it was not possible to achieve the goals of removal of poverty and increase in employment. In the 1977 general elections, the Congress Party was defeated. The Janata Party came to power. The new government ended the fifth plan towards the end of March 1978 and started the Rolling Plan from April 1978, but it failed. In 1980, general elections were held for Lok Sabha. The Congress party came to power. The Congress government closed the system of the Rolling Plan and again started planning like before.

**Sixth Five Year Plan (1980-1985) :**

This plan also stressed upon alleviation of poverty and employment generation. This plan had the following objectives : significantly increase the growth rate in the economy,

reduce the rate of poverty and unemployment, shape and implement a population policy so that people adopted the small family norm voluntarily and thus keep the population under control.

The following programmes were implemented in the sixth five year plan:-

Integrated Rural Development Programme (IRDP).

Rural Landless Employment Guarantee Programme (RLEGP).

National Rural Employment Programme (NREP).

Salem Steel Plant.

**Seventh Five Year Plan (1985-1990) :** This plan laid stress on food, employment and productivity. The objectives of the plan included : Development, modernisation, self-reliance, social justice, improving the techniques of production, to achieve an yearly increase in national income of 5% and increase food grain production. The Seventh plan proved to be important from the point of view of employment generation.

The following programmes were started in this plan :

Jawahar Rojgar Yojana

India Awaas Yojana

Scheme of 10 lakh wells.

### **Eight Five Year Plan (1992-1997) :**

This plan gave a lot of scope to the private sector. The plan had the following features : to maintain the rate of growth in national income at 6.5%, to control the growth of population, to encourage the programme of family planning, to remove illiteracy by expansion of primary education. During the eighth plan, the importance of the private sector grew. This plan is a reflection of the liberalisation and free market policy adopted in 1991.

The following programmes were started during this plan :

Pradhanmantri Rozgar Yojana

Mahila Samriddhi Yojana

Rashtriya Samajik, Arthik Sahayya Yojana

Midday Meal Scheme

Indira Mahila Scheme

Ganga Kalyan Scheme

### **Ninth Five Year Plan (1997-2002) :**

This plan focused on agriculture and rural development. The objectives of this plan were : to increase the rate of growth of the economy, create healthy competition in the infrastructure sector, give a new direction to industrial policy for ensuring foreign investment. In this plan, the progress of communication system and service sector was achieved as per the expectations. There was a growth in the fields of construction and communication.

The following schemes were started during this plan :

Swarna Jayanti Shahari Rozgar Yojana

Bhagyashree Child Welfare Policy  
Rajrajeshwari Mahila Kalyan Yojana  
Swarnjayanti Gram Swarozgar Yojana  
Jawahar Gram Samruddhi Yojana  
Antyodaya Anna Yojana  
Pradhanmantri Gram Sadak Yojana, etc.

### **Nationalisation of Banks:**

During the tenure of Prime Ministers Pandit Nehru and Lal Bahadur Shastri, banking was a monopoly of the private sector. These banks represented different industrial groups. The Directors of these banks were working towards developing industrial sector and increasing its profits. In order to stop this, the government nationalised the 'Imperial Bank' in 1955 and it got converted into State Bank of India. This Bank opened several branches all over the country in a short while and played a major role in development.

**Background of Nationalisation :** India had adopted a mixed economy after independence. Nationalisation of banks was essential to cover the deficits if they occurred while implementing different schemes. Also the profits of these banks would come into the government treasury once they were nationalised. Along with this, the policy of developing small industries and pharmaceutical industries had to be implemented. Lal Bahadur Shastri undertook the experiment of the Green Revolution in order to overcome food shortages and drought. During the tenure of Prime Minister Indira Gandhi, 'Congress Forum for Socialist Action', a group in the Congress party inspired by socialist ideas made a demand for nationalisation of commercial banks. Even the Communist Party supported this demand.

**20-Point Programme :** Prime Minister Indira Gandhi announced the 20-point programme on 1st July 1975 and resolved to make efforts towards rapidly becoming a developed nation. The main provisions of the 20 point programme are as follows :

Land ceiling for cities and agricultural land, equal division of wealth, minimum wages for workers, increase in water conservation schemes.

Workers' participation in industry, national training scheme, freeing bonded labour.

Prevention of tax evasion, economic crimes and smuggling.

Regulation of prices of basic necessities, improvements in the public distribution system.

Improvement in the textile industry by developing handloom sector, waiving loans for weaker sections, housing, communication facilities, making educational equipment available to schools.

### **Issues of workers :**

The first textile mill was started in Mumbai on 11th July 1851 by Kavasjee Dawar. Eventually, mills started in Dadar, Paral, Bhaykhala, Shivdi, Prabhadevi and Worli. This part came to be known as Girangaon or 'town of mills'. In the 1980s, the increasing unrest

among workers was due to the economic conditions in other sectors. In some industries the wages of the workers were increasing. They were also getting more amounts as bonus. They were getting more facilities than the textile mill workers. In the Diwali of 1981, the workers expected to get a bonus of 20%. The Rashtriya Mill Mazdoor Sangh, which was negotiating with the employers, agreed upon 8 to 17% bonus without taking the workers into confidence. The cut in the bonus proved to be the cause of unrest. Some workers went to Dr Datta Samant. They asked him to accept their leadership. Workers of 65 mills came together and Dr Datta Samant led the strike. On 18<sup>th</sup> January 1982, two and a half lakh workers went on a strike. Girangaon mills stopped running making it seem like Mumbai's heart stopped throbbing. The Chief Minister of Maharashtra, Barrister A. R. Antulay set up a committee to solve this issue. Later Babasaheb Bhosale became the Chief Minister of Maharashtra State. He insisted that as per law, he would talk only with the Rashtriya Mill Mazdoor Sangha. Dr Datta Samant demanded that the law be revoked. In the beginning, the striking workers received help from their native villages. It was also not very difficult for them to help each other. They set up departmental committees and distributed food grains, assistance in the form of funds, etc. The left parties had supported the strike. As the strike dragged on, efforts were made to split the striking workers' ranks. Even as the strike completed 6 months, the central government completely ignored it. The workers started a 'Jail Bhari Agitation'. In September 1982, one and a half lakh workers took a march on the Legislative Assembly of Maharashtra State. It didn't help at all. The strike completed a year. This was the first strike to have gone on for a year. In this period, about one and a half lakh workers became unemployed. As polyester had come into greater demand than cotton cloth, the sale of mill cloth had already got affected. The mills moved from Mumbai to Surat in Gujarat. The Central government nationalized 13 textile mills. Appointment of arbitrators did not help to resolve the issue.

### **New Economic Policy :**

The year 1991 is very important in the history of modern India. After the 10th General Elections, P. V. Narasimha Rao became the Prime Minister of India. With Dr Manmohan Singh as Finance Minister, he adopted the new economic policy of linking India's economy with the global economy. For this, fundamental changes were brought about in the Indian economy. Indian economy was brought in tune with the global mainstream. During this period, Indian economy was in a crisis situation. Before the P. V. Narasimha Rao government took charge, Chandra Shekhar was the Prime Minister. During his tenure the rate of inflation was 17%. Economic growth rate had gone down by 1.1%. India had foreign exchange reserves only enough to last for imports for a week. It had become difficult to pay back its loan and even give the interest on it. In May 1991, the government had tried to control the situation by selling some of its gold reserves and by mortgaging some. Before the Chandra Shekhar government, the V. P. Singh government had incurred a liability of over 10 thousand crore rupees on the economy by waiving off the loans of all farmers. The Proportion of internal loans of central and state governments together to the gross Domestic Product was 55%. In 1980-81 foreign loan was 2350 crore dollars. It increased to 8380 crore dollars in 1990-91. At this time, India had foreign exchange reserves of only 100 crore dollars. This also had the background of the increased oil prices due to the invasion of Kuwait by Iraq. It became difficult for India to raise a loan. Even the non-resident Indians started withdrawing their deposits in foreign currency from India.

### **Remedies :**



P. V. Narasimha Rao appointed Dr Manmohan Singh as Finance Minister in order to find a way out of this situation. Dr Singh undertook many corrective measures. The situation began to change. He removed the restrictions on foreign investments. He restricted the licence system to 18 industries. In view of the increasing losses in the public sector industries, he opened up the public sector for investment by private industries. In order to bring the share market under control, he established the Securities and Exchange Board of India (SEBI) in 1992. National Stock Exchange was computerised. He gave priority to remove the spectre of recession. Foreign Investment in India grew during the first tenure of Dr Manmohan Singh as Finance Minister. India could recover the gold mortgaged with the Bank of England. The government got the support of the capitalist class as well as the middle class. As the government opened up the telecom sector, mobile phone services started all over the country. Dr Manmohan Singh signed the agreement with the World Trade Organisation and launched the policy of privatisation, liberalisation and globalisation.

### **World Trade Organisation :**

In 1995, India became a member of the World Trade Organisation (WTO).

The organisation had the following objectives:

to free trade between countries

to put to an end all those discriminatory laws

restrictions

rules and policies that are hurdles in the way of international free trade and

to regulate global trade with the help of a formal multi party mechanism.

General Agreement on Tariffs and Trade (GATT) existed at the international level before the World Trade Organisation came into being. It regulated commerce. In India there were opposed, extreme views about the World Trade Organisation. Yet India decided to take its membership. The provisions of the World Trade Organisation are regarding grants, import-export, foreign investment, agriculture, technology and services. The sectors of electricity, water transportation, education and health rapidly commercialized since India became a member of the World Trade Organisation. As per the various reports of the World Trade Organisation, India has made a considerable improvement in different areas like reduction in the below poverty line (BPL) population, decline in infant mortality, availability of facilities regarding drinking water and waste water management. India signed the South Asian Preferential Trade Agreement (SAPTA) along the lines of the World Trade Organisation. India removed the import restrictions on several commodities for SAARC countries. India also gave discounts on import duties. India opened up the insurance sector to private and foreign investment.

Did You Know?

1. Prime Minister Indira Gandhi nationalised 14 banks on 19<sup>th</sup> July 1969.

These include :

- a. Allahabad Bank
- c. Bank of India
- e. Canara Bank

- b. Bank of Baroda
- d. Bank of Maharashtra
- f. Central Bank of India

g. Dena Bank  
i. Indian Overseas Bank  
k. Syndicate Bank  
m. United Commercial Bank (UCO Bank)

h. Indian Bank  
j. Punjab National Bank  
l. United Bank of India  
n. Union Bank of India

In 1980, six more banks were nationalised.

2. Mahatma Jotirao Phule's associate Narayan Meghaji Lokhande's efforts resulted in the weekly Sunday holiday for mill workers from 1st January 1882.

3. The working class has contributed culturally as well through folk theatre, folk art and literature. Anna Bhau Sathe, Shahir Amar Sheikh, Shahir Sable were popular for their programmes aimed at public education. Poets like Narayan Surve, Namdev Dhasal, etc. portrayed the real life of the workers through their poems.