
UNIT 25 POLITICAL ECONOMY OF INDIAN DEVELOPMENT

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25.0 OBJECTIVES

After going through this unit, you will be able to:

- state the framework of political economy;
- appreciate the historical context of India's economic backwardness;
- evaluate economic planning in India's democratic polity under 'mixed' economy; and
- identify the implications of the on-going process of economic liberalisation in India

25.1 INTRODUCTION

Indian independence from British rule in 1947 raised hopes of a new India. Two and a half centuries of colonial experience (from c.1700 to 1947) left our economy in ruins. Both agriculture and industry were characterised by extremely low levels of productivity. This implied mass poverty, widespread disease and ignorance. Any hope of improving the general standard of living on a sustained basis rested on the creation of a firm economic foundation. This was the major challenge before India after independence. There was a second challenge as well. This related to nation-building in the vast sub-continent. A diverse society deeply divided by language, geography, caste, religion and feudal power structures was to be transformed into a modern democracy based on universal suffrage and commitment to a national constitution.

Any programme of economic reconstruction could not rely exclusively on private enterprise (or market economy) and required an active role of the state (or, roughly speaking, the public sector). In fact, the development of private enterprise itself depended heavily on the basic economic foundation to be created by the state. The programme of economic reconstruction therefore had to be executed in the context of a 'mixed' economy with clearly demarcated areas for the market and the state. Moreover, such an economic leadership of the state was to operate within the political framework of democracy. This was undoubtedly a great social experiment with no parallel in history. It was eagerly awaited by the world divided into two major power blocks led by the United States of America and Soviet Russia.

This unit traces the course of economic development in independent India, its nature and constraints, and its success and failure. We approach the issue through the framework of political economy. This framework takes a broader view of the economy, whereas the conventional framework considers the economy primarily as a network of markets. To begin with, we shall explain the concept of political economy and development. We shall then survey the state of Indian economy at the time of independence and the thinking about economic development at that time. Our study period of roughly six decades (1950-2010) falls into two sub-periods. The latter correspond to major regimes of economic policy. The first sub-period of roughly four decades (1950-1990) relates to an ambitious programme of industrialisation with the Indian state playing a lead role. The second sub-period of two decades since 1991 saw a major shift in political and intellectual environment in favour of the market in achieving economic growth and efficiency. This we shall cover under the policy regime of economic liberalisation.

25.2 POLITICAL ECONOMY: CONCEPT

Political economy offers a framework of analysis that is wider than conventional economics. Conventional economics has markets at the center of analysis. Society is seen as an aggregation of individuals as rational agents maximising their utility or profit. In this view of the economy, markets solve practically all problems of interest to the economist. These include *production* (namely, what and how much to produce along with the technique of production); *exchange* (or what prices various goods and services should be fetching); *distribution* (or the claims of different 'factors' of production on national income); and *growth* (the rate and pattern of growth of national income). The state or its agent, the government of the day, exists on the sidelines of the market economy without playing an essential role in it.

You may be wondering how political economy is different from this conventional view. Political economy is equally concerned with the four basic economic processes just mentioned. However, its approach is different in three fundamental ways. First, individuals in society are first and foremost members of social classes. The social classes relate to the economy in specific ways, for example as owners of capital, workers, landlords, peasants, bureaucracy and so on. The distribution of economic power among the social classes and its impact on policies of the state are of particular importance to political economists. Individuals are thus social individuals, their activities and behaviour being conditioned by the social class to which they belong. Secondly, while markets are important as an economic institution, political economy views the historical, social and political forces underpinning markets to be more fundamental. It is these forces that determine the nature and

functioning of markets. Finally, the state is an integral part of the economy. Its economic policies mediate the interests of social classes. Often, there is a conflict of interests and the state must deal with them one way or another.

25.3 DEVELOPMENT: CONCEPT

Economists distinguish between economic growth and development. Economic growth represents growth in per capita income or the amounts of goods and services people can command on average. Development certainly includes growth but has a wider scope. It includes changes in economic institutions. With economic growth, consumption patterns and life-styles change. On the other hand technical progress enables production of entirely new goods and services. Both these imply changes in the composition of aggregate output. These changes will be accompanied by shifts in the composition of workforce. Further, economic growth will be accompanied by greater or lesser inequality of income distribution. Similar shifts may attend export orientation, business organisation, legal framework, financial institutions, wage-bargaining mechanisms and infrastructure development. Together, these imply transformation of the economy as a whole. It is this institutional transformation that accompanies economic growth that is captured by the wider concept of development.

There is a second dimension to the concept of development. It relates to the quality of life of people. The ultimate end of development is improved quality of life. From this standpoint, development is to be judged from whether people are able to live better, stay healthy and educate themselves. Freedom from drudgery, absence of discrimination of all kind, opportunities for self-enrichment and pursuit of higher human needs are important goals of any development process. Development in this sense represents an increasing arena of freedom in which people can realise their full potential as human beings. The Human Development Index, now widely published by national and international agencies, is an attempt to measure the quality of life. It is now widely recognised that economic growth by itself cannot ensure development in terms of quality of life. Policies have to be explicitly designed and implemented to ensure that economic growth translates into human development.

25.4 UNDERDEVELOPMENT AT THE TIME OF INDEPENDENCE

To understand the problem of underdevelopment in India at the time of independence, we need a historical perspective. India's colonial experience provides that perspective. The framework of political economy requires that we look at colonial impact on broad sectors of the economy and social classes.

Since the eighteenth century, the world economy has been transformed by two major forces: (i) Industrial Revolution, and (ii) colonialism. These forces combined to divide the world into 'developed' and 'developing' economies. Industrial Revolution in Western Europe, especially Britain, led to significant increases in productivity of labour and prosperity there. However, the benefits of that revolution did not spread over to much of Asia, Africa and Latin America because of colonialism. These regions became especially impoverished after they became colonies. Industrial Revolution and colonialism operated in tandem because the countries that prospered were imperial powers of Europe and the countries which were impoverished were their colonies.

India's colonial experience, primarily under the British, spanned two and a half centuries, from c.1700 to 1947. The period from 1700 to 1857 was marked by the rule by East India Company, while the period from 1858 to 1947 witnessed direct rule by the British Crown. The two sub-periods presented different kinds of British interests in India and therefore economic policies for India. The trading activities of East India Company, often involving underpayment, coercion and violence, damaged local merchants, peasants and weavers. Indian agriculture and peasantry received a major setback through land revenue settlements. Both the *zamindari* and *ryotwari* systems of land settlement led to a new class of intermediaries between the tiller and the company. The peasantry was weighed down by onerous revenue demands of the company and margins of intermediaries even during famines. Because revenue payments had to be made in cash, farmers were forced to shift cultivation from food crops to commercial crops. They became market-dependent for food grains.

Under the combined weight of revenue demands, usury and rack-renting, peasants were forced to sell their lands to merchants and moneylenders or become tenants on the estate lands. The simultaneous decline of rural crafts and urban industry meant that crafts persons and industrial workers joined the ranks of the rural landless and the poor. The intermediaries emerged as the new dominant social class. Neither the company nor intermediaries showed any interests in the long-term development of agriculture through investments.

These tendencies only worsened during the rule by the crown. A shift from company rule to direct rule by the crown became imminent as British industry required India to be both a major source of raw materials and an assured market for British manufactures. These considerations did force the imperial power to invest in India in the selected sectors of irrigation and transport network to port towns. As manpower requirements of civil and revenue administration grew, liberal English education was introduced. However, increasing commercialisation of agriculture to serve British interests did not provide any relief to the peasantry that continued to reel under revenue demands and the combined hold of landlords, merchants and moneylenders on the rural economy. Labour employed in British tea, coffee and rubber plantations in India lived in slave-like conditions.

Indian industry also suffered a major decline under the crown rule. Competition from British manufactures meant a decline in demand for domestic handlooms, metals, tools, glass, paper products and so on. This ruined millions of artisans and craft industries. The decline of traditional industries was not compensated by the development of modern industries. As British capital was mainly directed to banking, commerce, shipping and insurance, no foundation was laid for the development of heavy industries. There was no scope for nurturing a native entrepreneurial class. This phenomenon of decline of traditional industries and the lack of development of modern and heavy industries is known as de-industrialisation.

New ways of draining away the economic surplus generated in India were introduced. India's foreign trade surplus was transferred to British accounts. Home Charges and making India pay for British wars in Afghanistan and China were other means of drain. The economic impact of colonial rule in India was devastating. The colonial state took no responsibility for the general welfare of Indians. While markets in output advanced significantly, labour, credit and land markets remained underdeveloped. The colonial legacy of economic stagnation and decline posed a major challenge for development in independent India.

Check Your Progress 1

1) How 'Political Economy' is distinct from market economy?

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2) Explain the different dimensions of development.

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3) State the economic impacts of colonial rule in India.

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25.5 DEVELOPMENT THINKING

On attaining independence India had to reckon with the challenge of building from scratch an economy that could promise a life of security and dignity for the millions within an acceptable time frame. Leaders of the nationalist movement were aware that freedom from foreign rule was not the ultimate goal. Nationalist writings and regional social reform movements also bear testimony to an understanding of what we today call 'human development'. The Gandhian approach to economic development emphasised voluntary limitation of wants, sustainable use of natural resources and self-sufficient village communities. Although this approach did generate some debate before and after independence, the modernising approach of Nehru, stressing growth in commodity production and capital stock found favour with both congress workers and the left wing politicians. In terms of development thinking, there was a general consensus among all classes on two issues: (i) that industrialisation was the key to economic growth, and (ii) that the state must take the lead to initiating the process of economic growth. Both the 'Bombay Plan' prepared by leading industrialists even before independence and the Industrial Policy Resolution of 1948 bore testimony to this consensus. Industry, unlike agriculture, has the potential of unlimited expansion of output, employment and productivity. Its development is imperative for transferring the huge reservoir of underemployed labour for low productivity agriculture. On the other hand, modernisation of agriculture required industrial inputs such as farm machinery, irrigation and transport equipment and fertilizers. Active role of the state in industrialisation was envisaged on two grounds. First, a native class of industrialists was yet undeveloped. Secondly, the quantum of resources required for creating basic industries and infrastructure being huge, and the risks of such large projects

being very high, private enterprise could not be relied up on to take the lead in industrialisation.

An important idea that emerged out of this development thinking was that of *planning*. This idea and its formal acceptance as a vehicle for carrying out the programme of industrialisation had two major sources. At the political level, Prime Minister Nehru was impressed by the industrial achievements of socialist planning in Soviet Union after the Russian Revolution. The Industrial Policy Resolution 1948 accepted the idea of planning as a time-bound process of achieving pre-specified targets through prioritised allocation of investments. The IPR demarcated broad areas of action for the government (public sector), the big private industry and the traditional industry. A Planning Commission as a non-statutory advisory body was set up with the Prime Minister as the chairman. At the theoretical level, planning was inspired by the experience of post-War reconstruction in Eastern Europe. The literature that grew out of this experience emphasised the advantages of coordinated industrial investments. These included complementarities, linkages, spread effects and externalities of a major industrialisation programme. Since markets either did not exist or could not adequately signal these advantages in a backward economy, a plan was thought to be essential. Accordingly, the First Five Year Plan (1951-55) was put together rather hastily based on a meagre data base of the Indian economy. A target rate of growth of national income over the plan period was derived from an estimated saving rate and an estimated capital-output ratio.

A technically more sophisticated plan model was developed by the physicist turned statistician P.C. Mahalanobis. This model emphasised a conscious bias towards heavy industry and came to be known as the Nehru-Mahalanobis strategy. The Mahalanobis model became the bedrock of the Second Five Year Plan (1956-60) and all subsequent plans until the early 1990's. The final version of the model divides the economy into two sectors: the capital goods sector and the consumer goods sector. The model demonstrates how long-term rate of growth of the economy would be the maximum if the share of annual investment going into the capital goods sector increased progressively. However, the country had the technical option of importing capital goods rather than produce them at home. This option was ruled out as there was a shortage of foreign exchange reserves. The development of a domestic capital goods industry would then have a double advantage. First, the country could save on its meagre foreign exchange resources and secondly, it could reap the benefits of creating a base for industrial growth. It is also important to note that certain critical components of infrastructure such as power and transport networks cannot be imported. They must be erected domestically. Such items are known as 'non-tradables'. Each five year plan will have separate components for the public and private sectors giving out targets of growth and investment. Thus a state-led import-substituting industrialisation strategy with a bias towards heavy industry through five year plans came to be established in India. In the following section, we shall evaluate the career of this system of development planning in India. Our focus, again in the spirit of political economy framework, will be on in sectors, institutions, social classes and the state.

25.6 DEVELOPMENT PLANNING

We can identify the following four major components of the Nehru-Mahalanobis strategy:

- 1) The need for a comprehensive programme of import-substituting industrialisation to break out of the syndrome of centuries of economic backwardness;

- 2) A conscious bias towards heavy industries;
- 3) The commanding role of the state in a 'mixed' economy with a private sector; and
- 4) The need to carry out the programme in a framework of five-year/annual plans.

Translating the first three strategic choices into implementable plans, a policy framework was needed. First and foremost, the separate domains of operation for the state (public) sector and the private sector were demarcated. For this, the policy instrument of reservation of industries for the two sectors was implemented. According to the Industrial Policy Resolution 1956, the public sector was to cover, apart from defence production, atomic energy and railways, the core industries of coal, iron and steel, shipbuilding, communications, heavy machinery and heavy electrical. The private sector had an exclusive schedule of industries. However, it could enter some areas reserved for the public sector subject to a system of licensing. Small and village industries also had a list of items reserved for them. The scope of industrial licensing was wide. In addition to regulation of entry into particular industries, licensing covered capacity, production level, product mix and import of technology and capital goods. There were wide-ranging import controls, covering quantitative restrictions and tariffs, to protect and promote home industry. Controls on foreign exchange were also put in place. Planned industrial development thus involved a plethora of controls.

The era of planning with the dominant role for the public sector and an elaborate system of controls, licensing and permits operated for at least three and a half decades, viz. from 1956 to 1990. The career of planning must be evaluated against the objectives set out for planning. It is important to take a dispassionate and balanced view of the outcome of Nehru-Mahalanobis strategy. There were significant achievements but also significant failures. Development planning helped the economy overcome some constraints but it was also subject to new constraints.

In the first half of the twentieth century Indian economy suffered a near stagnation in growth. As compared to this, real national income (at 1948-49 prices) grew at an average of four per cent per annum during 1950-90. By itself, this was a significant achievement. A second major achievement was that a solid foundation for industrial development was laid during this period. Apart from basic infrastructure, key basic and capital goods industries were established. As envisaged by the plan strategy, the public sector took the lead role in building this base. The private sector achieved a significant growth and diversification in intermediate and consumer goods industries. This would not have been possible without the foundation laid by the public sector. The size of the public sector, measured as its share in gross domestic product (GDP), rose from ten per cent in the early 1960's to 24 per cent in the early 1990's. The economy built up production and technological competencies and manpower and skills in a host of industrial lines. This implied that the country became self-reliant (i.e. not critically dependent on imports) over a wide range of industrial goods and services.

There were two major failures of planning over a long haul of nearly four decades. First, the overall rate of economic growth, respectable though it was historically, did not translate into an appreciable rise in average standard of living in India. As against the overall growth of four per cent per annum, growth in per capita income averaged only 1.8 per cent per annum. This was well below the plan targets. The proximate reason for this was population growth. Following a decline in the death

rate after independence, population growth in India averaged 2.1 per cent per annum. Given the large base of India's population, this amounted to huge additions to the stock of population year after year.

A second major failure of development planning in India has been a very slow growth of employment. Although Indian economy grew appreciably over the four decades under reference, Indians did not benefit from either employment growth or productivity growth. The share of agricultural sector in GDP steadily declined, but there was no corresponding decline in the concentration of workforce in agriculture. The non-agricultural sectors of the economy, whose share in GDP rose sharply, did not generate opportunities of productive employment on a scale necessary to ease pressure on agriculture. This asymmetry between economic growth and employment growth holds the key to the paradox of economic growth and persistence of absolute poverty in India. In particular, employment growth in manufacturing sector was extremely low. This is because, contrary to the original intent of Mahalanobis, traditional and small scale industries have not been developed.

The long-run growth of the economy at four per cent mentioned above is an average. It hides significant fluctuations in growth year to year or plan to plan. There were also unexpected 'shocks' to the economy induced by weather, wars, internal emergency and international developments. The lowest average growth occurred in the Third Plan (1961-66). In this period India had wars with China and Pakistan, apart from famines. This led to the suspension of planning for three consecutive years (1966-69). The Fourth Plan (1969-74) saw India's second war with Pakistan, the Bangladesh war and the First Oil Shock of 1973. The Fifth Plan (1974-79) witnessed declaration of internal emergency and the Second Oil Shock. The economy posted negative growth in 1979-80.

It would, however, be wrong to attribute the failures of planning to these unanticipated shocks. There were specific constraints on economic growth that were operating and these were well known to planners. There were four major constraints: food, savings, foreign exchange and demand. They were also inter-related. Overcoming them required a policy framework beyond controls and licensing, institutional changes and political mobilisation, apart from dealing with class interests and conflicts. We must consider the constraints briefly.

A growing output of food grains is absolutely crucial in a situation of growing population and additional purchasing power that plan expenditure generates. Yet a proliferation of small holdings, traditional technologies of farm production under mainly rain-fed conditions and the specific characteristics of agrarian markets meant that food grain output was not elastic with respect to demand. The consequent rise in food prices fuels general inflation. In the 1950's and early 1960's India was dependent on food imports. This was not a long-term solution. To deal with the institutional aspects of agricultural backwardness, land reforms were vigorously debated as a means to increase productivity and production in agriculture. However, comprehensive land reforms, especially a radical redistribution of land, were a non-starter given that the Indian state was dominated by landed interests. Consequently, India had only token land reforms in terms of abolition of intermediaries and legal protection of tenants. A way-out to increased food production without radical land reforms was found in new agricultural technology. Better known as Green Revolution technology, this involved short-duration high yielding varieties of seeds of rice and wheat, controlled application of water through irrigation and chemical fertilizer. This yield-raising technology was initially adopted in the more favourable regions of Punjab, Western Uttar Pradesh and deltaic

regions and took a long time to diffuse to other regions. This technology was combined with a policy of food procurement and buffer stocks, along with minimum support prices. This policy did succeed in achieving self-sufficiency in food grains but led to other contradictions in terms of regional and social inequalities, land degradation due to intensive cropping and decline of water tables in several regions following extensive use of ground water for irrigation. The agricultural policy also started a conflict of interest between industrialists and large farmers whereby the relative prices of agricultural commodities and manufacturing, known as inter-sectoral terms of trade, became a major political issue.

A second constraint related to shortage of savings. The huge investment demands for new industrial projects coupled with a low rate of saving in the economy and limited possibility of foreign investment meant that the plans depended heavily on budget deficits. In the context of low elasticity of supply of wage goods, especially food, and long gestations periods of industrial projects, this led to high rates of price inflation. The burden of taxation inevitably fell on indirect taxes. This contributed among other things to increased inequality. Thirdly, shortage of foreign exchange resources meant limited ability to import critical capital equipment. The cost of imports also was high because of a fall in the exchange rate. At the same time, Indian exports were not cost competitive in the international markets. All these cumulated into an endemic pressure on account of balance of payments. Finally, because of the various mechanisms operating to sustain mass poverty in the country, the economy has faced a persistent problem of insufficiency of domestic demand. This is despite the fact that India has a potentially huge home market given the size of her population. All these constraints operated to ensure that economic growth and development in the era of planning low and halting. Planning could not get over the structural problems of poverty and unemployment.

This is despite some radical measures such as nationalisation of scheduled commercial banks in 1969 by Indira Gandhi. Bank nationalisation did achieve expansion of banking facilities throughout the length and breadth of the country, besides directing credit to agriculture and household and small industry. Such measures were not by themselves sufficient to make a dent on mass poverty. In fact, by the late 1960's it became clear that two decades of planned economic development had not improved the general levels of living of people. This was because planning had not delivered on expansion of productive employment for labour at large. Indira Gandhi's subsequent call for *GaribiHatao* (Banish Poverty) took a turn towards various poverty alleviation programmes without reorienting industrialisation for growth of productive employment.

Check Your Progress 2

- 1) In term of development thinking, what were the two major issues having consensus across the board?

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- 2) Explain the import-substitution industrialisation strategy.

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- 3) State the major components of Nehru-Mahalanobis strategy.

- 4) Give an account of major failures of planning over a period of four decades- (1950-1990).

25.7 THE REGIME OF ECONOMIC LIBERALISATION

The year 1991 marks an important landmark in the history of Indian economy. For in this year, the country adopted comprehensive macro-economic reforms. The reforms were to replace the Nehru-Mahalanobis strategy with policies aimed at reducing the role of the state including the public sector, dismantling of controls, opening up the economy to foreign trade, investment and finance. We survey the background, the process and the general outcome of this ongoing programme of economic liberalisation.

The switch to a regime of economic liberalisation was driven by a crisis of balance of payments. Government finances were in a bad shape thanks to regular fiscal deficits. The country's foreign exchange resources were at a record low. Early 1991, foreign reserves were not adequate to finance even a month of imports. Inflation was high. There was political instability with frequent changes in government. Internationally, the turbulent situation in the Middle East and the collapse of the USSR meant that the remittances from non-resident Indians declined sharply and the panic-stricken NRIs actually sought to withdraw their foreign currency deposits in India, making our payments position even more precarious. Driven by this acute payments crisis, India contracted a huge loan of 3.6 billion SDR (Special Drawing Rights, an international reserve asset) from the International Monetary Fund (IMF) in June 1991. However, the loan came with the condition that India, as loan recipient, would carry out comprehensive economic reforms.

There was also an important shift in the intellectual climate worldwide at the time. The new approach to managing the world economies, including the developing countries, recommended an enlarged role for the market (as against the state) and deregulation of foreign trade and financial markets. Promoted by the World Bank and the IMF, the approach came to be known as 'Washington Consensus'. It replaced the older 'development consensus' of the 1950's which favoured pursuit

of autonomous industrialisation strategies including protection of domestic industry by the developing countries. The change in the intellectual climate was also occasioned by the success stories of several East Asian countries. Liberal economic policies followed earlier in the 1980's by President Reagan in the US and Prime Minister Thatcher in Britain lent political support to the shift. Not in the least, the decline of Keynesian macro-economics and its replacement by orthodoxy in the academia and the policies of central banks in the West were an influence. Meanwhile, there was a tremendous growth in global finance capital which came to dominate trade in goods, services and investment. Multinational banks and corporations controlling the global finance were mounting pressure on all economies to open up their markets to it.

The programme of liberalisation adopted by India in 1991 had two major components: (1) stabilisation and (2) structural adjustment. Both are based on the conviction that the economy works best when it is left to market forces with minimal state interference. The programme of stabilisation, recommended by the IMF, seeks to stabilise prices, budget and balance of payments deficits and exchange rates in the short run. There are two instruments for achieving stabilisation. The first is deflation, or reduction of aggregate demand, particularly through reduction in government expenditure. Deflation is supposed to improve balance of payments through reduced imports. Deflation would bring down the price level and therefore take the exchange rate to a realistic level. The second component is monetary policy. A tight monetary policy and the resulting high interest rates would attract private capital flows into the economy.

Structural adjustment, the other major component of the liberalisation programme, is recommended by the World Bank. It is focused on long-run growth and efficiency. According to this, a developing country will place itself on to a high and efficient growth path when it aligns domestic prices with international prices and its resources shift to private uses and exports. On this belief, the Bank would recommend complete liberalisation of foreign trade in goods, investment, technology and finance. In addition, it recommends deregulation and privatisation in the domestic economy. The Fund-Bank prescriptions are thus a complete reversal of 'development consensus' and the Nehru-Mahalanobis strategy.

The Fund-Bank package of reforms would obviously affect the interests of certain social classes while they may damage the interests of other classes. Which section of India should bear the burden of adjustment? This, of course, was a hard political choice. While India accepted the package in full, it had to adopt a particular sequencing of reforms that would meet with least political resistance. The external sector, domestic private industry and financial sector were favoured for reforms. Agriculture and the public sector have hardly been touched so far. On the external front, major reforms have been implemented. Practically all restrictions on trade have been removed. Peak customs duties have been reduced. Capital flows of both direct and portfolio types have been freed. The exchange rate is more or less market determined. The new industrial policy of 1991 brought out far-reaching changes. Industrial licensing was effectively abolished and limits on investment were softened through amendments to Monopolies and Restrictive Trade Practices (MRTP) Act. The new policy permits mergers and acquisitions among companies. Reforms in the financial sector spanned banking, government securities market and deficit financing following the recommendations of the Committee of the Financial System, better known as the Narasimham Committee. To improve profitability of banks, strict limits were placed on government borrowing

from banks. The policy envisaged reduction in the non-performing assets (NPAs), improvement of capital adequacy of banks and reduction in cash reserve ratio (CRR) and statutory liquidity ratio (SLR).

It is too early as yet undertake a comprehensive evaluation of stabilisation and structural adjustment policies because the reform process is still on. However, we can point to certain tendencies already evident. The post-reform, especially since 1996-97 saw a clear acceleration in the growth of Indian economy. The same period saw a striking growth of the tertiary sector, while agriculture posted a steady decline as a share of GDP. Growth of employment remains dismal. Deflationary policy has meant that government expenditure, especially on capital account, has declined. This has especially affected agriculture and created a scenario of agrarian distress. There was a spate of farmer suicides all over the country and traditional, labour-intensive industries such as handlooms have suffered. Poverty ratio remained as high as 37 per cent in 2004-05. Despite all the focus of reforms, the share of secondary sector, in particular manufacturing, in GDP has not shown a marked growth. The service sector growth, while it has been impressive, has been concentrated on selected sub-sectors such as financial services, information technology, real estate and public administration with limited opportunities for ordinary labour for productive employment. The foreign exchange reserves, thanks to IT exports and large inflows of short term capital, have improved. These gains have been lost, however, after the global economic crisis since 2008. This period has seen again a stress on balance of payments, high inflation combined with a tight monetary policy and slippages on fiscal deficit targets. A paradox of the reform process so far is that agriculture sector and the public sector remain untouched, excepting the policy of disinvestment in public sector enterprises. The long-term objectives of economic development – elimination of structural poverty, unemployment and inequality – remain unfulfilled after both the major shifts in economic policy in independent India.

Even so, the very process of economic reforms faced a political constraint. The decline of hegemonic national political parties and the emergence of coalitional politics after the 1980's has led to a lack of consensus on the pace and pattern of economic reforms. According to the dominant view, more through-going reforms are needed to realise the full growth potential of the Indian economy.

Check Your Progress 3

- 1) Identify the two major components of the programme of liberalisation.

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- 2) Enlist the positive impacts of liberalisation.

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- 3) What are the prospects of outcomes of economic liberalisation?

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25.8 LET US SUM UP

Political economy framework perceives individuals as first and foremost member of social classes in term of specific ways viz. owners of capital, workers, land lords, peasants, bureaucracy etc. The activities and behaviour of social individuals are conditioned by the social classes to which they belong. The historical, social and political forces determine the nature and functioning of markets. The State is an integral part of the economy. Its economic policies mediate the interests of social classes. Development is wider concept. It includes economic growth and changes in economic institution. It relates to the quality of life of the people.

The economic impact of colonial rule in India was devastating. The colonial legacy of economic stagnation and decline in agriculture and industrial sector posed a major challenge for development in Independent India.

At the eve of independence, there was a consensus on two major issues: (i) industrialisation was the key to economic growth (ii) state must take lead to initiate the process of economic growth. Based on Nehru-Mahalanobis strategy, import-substitution industrialisation policy was followed in carrying out the programmes in a framework of five year/ annual plans. The state played the commanding role in a mixed economy. With the dominant role for the public sector, the system of controls, licensing and permits operated for three and half decades (from 1950-1990).

The year 1991 marked an important landmark replacing Nehru-Mahalanobis strategy by comprehensive macro-economic reforms envisaging reduction of the role of state, dismantling controls, and opening up of the economy to foreign trade, insurance and finance. The long term objective of economic development namely elimination of structural poverty became subservient to the process of economic liberalisation. Unemployment and inequality have remained unsolved after both the major shifts in economic policy in independent India.

25.9 EXERCISES

- 1) What is the distinction between market economy and political economy? State the characteristics of political economy framework. Critically examine India's economic backwardness in the historical context?
- 2) Critically examine the implications of on-going process of economic liberalisation in the political economy framework,
- 3) In the political economy framework, critically examine the major achievements and failure of Nehru-Mahalanobis strategy followed till 1990.
- 4) Was there a need for attempting industrialisation through planning in India after independence?
- 5) Do you think that planning in India was successful? Why (not)?
- 6) Evaluate political economy as distinct approach to the study of the economy.

25.10 KEY WORDS

Political Economy : An approach to the study of the economy that emphasised institutions and social classes

that surround markets. The state and its policies are an integral part of the study.

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| Development | : | The process of societal transformation that accompanies economic growth. It includes an expansion of freedoms of individuals. |
| Planning | : | A system of directing investments to meet socio-economic objectives of long-term economic growth and equity. |
| Import Substitution | : | A process of industrialisation that deliberately promotes industries whose products can otherwise be imported instead. Import of those products is discouraged to protect such 'infant' industries. The objective is to achieve self-sufficiency in basic goods. |

25.11 SOME USEFUL BOOKS

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25.12 ANSWERS OR HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

- 1) See Section 25.2
- 2) See Section 25.3
- 3) See Section 25.4

Check Your Progress 2

- 1)
 - i) Industrialisation is the key to economic growth.
 - ii) State must play dominant role in initiating the process of economic growth.
- 2) See Section 25.4
- 3) See Section 25.6
- 4) See Section 25.6

Check Your Progress 3

- 1)
 - i) Stabilisation
 - ii) Structural adjustment
- 2) See Section 25.7
- 3) See Section 25.7