UNIT 2 ECONOMIC ENVIRONMENT — AN OVERVIEW

Structure

2.0 Objectives

2.1 Introduction

2.2 Mixed Economy in India

2.3 Economic planning

2.4 Basic Elements of the Strategies Followed During 1956-90 (Nehru-Mahalanobis Strategy of Development)

2.5 Contemporary Economic Reforms

2.6 Let Us Sum Up

2.7 Key Words

2.8 Terminal Questions

2.0 OBJECTIVES

After studying this unit you should be able to:

- describe the features of mixed economy in India
- . outline the structure of economic planning in India
- examine the development strategies adopted in various plans
- a analyse the contemporary economic reforms initiated by the government.

2.1 INTRODUCTION

In the previous unit you have studied about various components of business environment. In this unit our primary concern is the study of economic environment of business. You arc aware, environment differs not only over space but also over time within a country. Further environment is the product of past and present environments. The Indian economy of tomorrow will be influenced by what the state of the economy today and what it was like in the past.

Economic environment of business refers to the broad characteristics of the economic system in which a business firm operates. In this unit you will study economic environment in the context of economic planning, Economic planning is supposed to give a direction to the changes in economic environment,

During the struggle of India's freedom, the leaders had committed that India would after the attainment of independence, launch a programme of planned development of the country. In pursuance of this objective., the Indian National Congress, in 1938, appointed the National Planning Committee with Jawaharlal Nehru as the chairman to draft a plan for the development of India. The committee considered all aspects of planning and produced a series of reports on various subjects related with economic development. The Chairman of the Committee, Jawaharlal Nehru, became the first Prime Minister of India. His ideas and the policies initiated for the planned development of India reflected the consensus arrived at in the deliberations of the National Planning Committee. The Committee rejected the Soviet model of total ownership of the means of production by the state on the one hand and the free capitalist enterprise model on the other hand, It opted for mixed economy framework as the most suitable economic environment for India.

The Committee, therefore, felt that:

(a) The state should own or control all key industries and services, mineral resources,

railways, waterways; shipping and other public utilities and, in fact, all those large-scale industries which were likely to become monopolistic in character. In other words, the Committee specified the industries which were to be owned or controlled by the public sector;

(b) The remaining industries were to he in the private sector, but could be called upon to work in national interest. In case, the state at any stage felt that the monopolistic activities of private businessmen worked against national interest, it reserved the right to take over such industries;

(c) The Committee strongly held the view that it was not possible to draw a scheme of national planning without giving a primary place to agriculture; and

(d) The Committee aimed at doubling the standard of living of the people in 10 years,

2.2 MIXED ECONOMY IN INDIA

Soon after independence, there was lot of confusion about the environment in which the Indian economy should function. While labour leaders wanted complete transition to socialism, the capitalists within the Congress Party spoke of private capitalist enterprise environment. It was, therefore, necessary that the government should state clearly the type of economy which it intended to promote.

The choice was either to move to a complete transformation to socialism in which all the means of production (land, factories, banks, railways, transport and communications, hospitals, educational institutions, etc.) will be owned by the state. This was popularly referred to as the Soviet model. This required total nationlisation of all the spheres of economic and social activities. The other choice was to follow the capitalist model, popularly referred to as the capitalism, in which the means of production are owned by the landlords and the capitalists.

The nation, under the leadership of Jawaharlal Nehru rejected the Soviet model of socialism because it led to the emergence of a totalitarian state in which democratic freedoms were denied to citizens. Indian society worked for the democratic system of government which permitted the existence of different schools of thought. Thus the idea of the dictatorship of a party or of an individual or placing absolute power in the hands of an elite group (called as the cabinet) did not find favour in India. The command model of Soviet variety was reflected by the Indian policy in favour of democratic socialism which envisaged a mixed economy framework.

At the same time, the Indian leaders were against the capitalist model of production. Because it helped exploitation of peasants and landless workers by the landlords and of the industrial and other workers by the capitalist classes. Profit maximisation could not be accepted as the supreme goal of the society.

The government, therefore, opted for mixed economy within the parameters laid down in the Directive Principles of the Indian Constitution. The Directive Principles stated :

"The State shall, in particular, direct its policy towards securing —

(a) that citizens, men and women equally, have the right to an adequate means of livelihood.

(b) that the ownership and conuol of the resources of the community are so distributed as best to subserve the common good,

(c) that the operation of the economic system does not result in the concentration of wealth and means of production to common detriment.

The government of India, therefore, rejected both the extremes — the socialist model of the economy following the Soviet system and the capitalist model of development following the USA. It opted for a middle path which is described as the mixed economy framework in India. In such a system both the public sector and private sector were to co-exist. There is a criticism that in every economy — capitalist or socialist — public and private sectors do exist side by side. But this is a very narrow view of the co-existence of the public and the private sectors. The distinguishing feature of the Indian mixed economy

was that it aimed to deliberately enlarge the sphere of the puhlic sector so as to cover areas of defence, heavy and basic industries, infrastructure — hoth economic and social — and puhlic utilities. For development of the economy, the primary. role was given to the public sector. It was, therefore, referred to as the engine of growth.

The mixed economy framework did permit the private sector to operate in the remaining areas. However, the state emphasised that private sector should reconcile the element of self-interest with social interest. In-ease, the private sector failed to subordinate its greed for profit maximisation and continued unbridled exploitation of the working masses, the state possesses the right to takeover the control of such sector(s) of the economy. The private sector had, therefore, to work within the limits of a regulatory system so that it did not seriously come in conflict with social interest. The state, following the Directive Principles, decided to limit ownership in areas where it felt that ownership came in conflict with social interest.

In agriculture, for instance, zamindari system was abolished and the ownership of surplus lands acquired by the state after payment of compensation were transferred to small farmers and/or landless labourers. The legislation provided for ceiling on holdings, The purpose of 'the agrarian legislation was that land being the principal source of livelihood in rural areas, its ownership should he more evenly distributed. The state was not in favour o! total nationalisation of land and thus develop collective farming of the Soviet type. It had become clear that the experiment of collective farming did not increase productivity !! only increased costs of cultivation and did not provide any incentive for improving either labour productivity or land productivity in agriculture. The Government of India, therefore, promoted 'peasant proprietorship' with a ceiling on holding.

In the sphere of small scale industries, privaie ownership was accepted. The state decided to facilitate the growth of such industries hy providing credit and marketing facilities. These industries were considered important from the point of view of providing employment to a very large number of persons.

To direct investment in the desired lines of production, the state decided to nationalise banking and insurance. If it is left to the private sector, investment would be driven by market forces based on profit motive. But the areas of profit maximisation may not be areas of maximising social welfare. For example, private sector was not willing to invest in economic infrastructure such as multipurpose hydro-electric projects, irrigation, roads and communication. Similarly, private, sector may not provide adequate investment in education and health Facilities so that access to education and health facilities becomes available to the poor and deprived sections of the society.

The state, therefore, decided to undertake the development of economic infrastructure — energy, irrigation, transport and communication — in the public sector. It also sought to provide social infrastructure in the form of education and health so that the poor are enabled to acquire these facilities either free or at a very low and affordable cost, The network of schools, colleges, technical training centres, primary health centres, dispensaries, hospitals etc., had to be planned in the public sector.

During the British period, defence, heavy and basic industries were not allowed to be developed. But to have an independent industrial base for the Indian economy so as to make it self-reliant, it was considered necessary that the puhlic sector should undertake investment in defence, heavy and basic industries, Since these industries required lumpy investment and has a long gestation period, the private enterprise was unwilling to undertake investment in these areas. It sought investment in areas of short gestation and maximum profit. The state, therefore, planned the development of defence, heavy and basic industries in the public sector.

The mixed economy framework in India was particularly marked with the deliberate development of the puhlic sector in (a) defence, heavy and basic industries, (b) the development of economic and social infrastructure and (c) in controlling the commanding heights of the economy, viz., banking and insurance.

The deliberate enlargement of the public sector was symbolised by the phrase 'the development of socialist pattern of society' in the early period of planning. This was later replaced by the phrase 'democratic socialism'. The basic philosophy of democratic socialism entailed a programme of maximising production with maximum employment.

Along with this, a programme of action was initiated towards reducing economic and social disparities, thus, ensuring a national minimum level of living for all. In other words, growth with social justice within the framework of a democratic society were tasks to be accomplished under democratic socialism.

Thus, the environment provided by the mixed economy framework permitted the co-existence of both the public and private sectors on an enduring basis. Both had to work for the attainment of the socio-economic goals of planning. In unit 4 you will study in detail the framework of mixed economy and ownership patterns that have emerged.

2.3 ECONOMIC PLANNING

In 1950, the Government of India set up the Planning Commission with the objective of making an assessment of the resources of the country, both physical and human and formulate a plan for the development of the country. The Planning Commission laid down the long-term goals of planning. They were:

i) To increase production to the maximum possible extent so as to achieve higher levels. of national and per capita income;

ii) To achieve full employment;

iii) To promote industrialisation of the country with special emphasis on the growth of heavy and basic industries so as to achieve self-reliance;

iv) To reduce inequality of income and wealth; and

v) To establish a socialist pattern of society based on equality and social justice and absence of exploitation.

All the objectives were stated in the First Five Year Plan released in 1952. The First Five Year Plan stated:

"Maximum production and full employment, the attainment of economic equality or social justice which constitute the accepted objectives of planning under present day conditions are not really so many different ideas by a series of related aims which the country must work for. None of these objectives can be pursued to the exclusion of ,others, a plan of development must place balanced emphasis on all of them."

Check Your Progress A

1. What are the distinguishing features of the concept of mixed economy as evolved in India?

.....

.....

.....

.....

.....

.....

2. List the five principal goals of planning in India. Arrange them in order of importance.

.....

.....

.....

.....

.....

.....

2.4 BASIC ELEMENTS OF THE STRATEGIES FOLLOWED DURING 1956-90 (NEHRU-MAHALANOBIS STRATEGY OF DEVELOPMENT)

To solve the immediate problems of shortage of food and control of inflation, the First Five Year Plan (1951-56) adopted the strategy to achieve food self-sufficiency and also control inflation, For this purpose, it was decided to increase irrigation. The strategy worked and India was able to reduce her imports of foodgrains to just 0.5 million tonnes by the end of the year 1956. As a result of increase in food grains production and utilisation of capacities in industry, shortages of foodgrains and consumer goods were taken care of. This helped the country to stabilise the price level and control inflation. Thus the country at the end of the First Plan presented a picture of an economy which had overcome shortages of food and brought about price stability. This provided a climate for adopting a strategy for industrialisation of the economy. This strategy adopted in the Second Plan continued with some modifications till 1990.

During the Second Plan, Prof. P.C.Mahalanobis under the guidance bf Prime Minister Jawaharlal Nehru developed the heavy industry model based on the development experience of the Soviet Union. This strategy popularly known as the 'Nehru-Mahalanobis Strategy' formed the basis of the Second Plan. With minor modifications, this strategy was continued till 1977 when the Janta Party Government replaced it with the Gandhian Model of development with emphasis on small and cottage industries, but the Janta Party plan itself mentioned : It aimed at correcting the distortions in the Industrial Policy of 1956. Thus, it may be stated that the heavy industry strategy dominated the varuous plans during the period of 1956-90.

Chief Features of the Nehru-Mahalanobis Strategy of Development:

1. The strategy emphasised the rapid development of heavy industry so as to build an industrial base of the economy. The objective was to make the economy self-reliant in terms of the capital-goods sector. Arguing for the acceptance of the strategy, the Second Five Year Plan stated:

   "In the long run, the rate of industrialisation and the growth of the national economy would depend upon the increasing production of coal, electricity, iron and steel, heavy machinery, heavy chemicals and heavy industries generally— which would increase the capacity for capital formation. One important aim was to make India independent as quickly as possible of growth of producer goods so that the accumulation of capital would not be hampered by difficulties in securing supplies of essential producer goods from other countries. The heavy industry must, therefore, be expanded with all possible speed."

   The main arguments which provided justification for heavy industry strategy were :

   a) The British rule deliberately denied the development of heavy industry and kqpt India, primarily an agrarian economy as an appendage of the British colonial system.

   b) Indian industrial structure had a narrow base, mainly dependent on consumer goods industries. It was necessary to enlarge this base by the development of heavy industries and infrastructure. A diversified industrial structure, it was argued, could absorb a large proportion of labour force. This would also reduce dependence of excessive population for its livelihood on agriculture.

   c) Productivity of labour being higher in manufacturing than in agriculture, an industrialised economy promised to bring about a rapid increase in national and per capita income.

   d) Rapid industrialisation was essential, not only for the development of agriculture, but also for development of all other sectors of the economy.

2. **Role of public and private sector** — Since the private sector was not likely to undertake investments in heavy industry sector which had a long gestation period, but had low profitability, the government decided to give this responsibility to the public sector. The government conceived of the public sector as the engine of growth of

heavy industries and infrastructural facilities. The role of the private sector was complementary to the public sector in expanding the production of consumer goods and such other areas in which public sector investment was directed.

3. Role of foreign aid — Nehru-Mahalanobis Strategy admitted the use of foreign aid to facilitate the growth of capital goods and infrastructure sectors, but it emphasised the fact that major burden of development shall have to be borne by domestic savings. Since foreign aid would largely come in the form of loans, it is essential that export growth he emphasised so that bulk of imports are paid for by the increase in exports.

4. Role of small industries — Nehru-Mahalanobis Strategy was conscious of the fact that massive investments, though very essential in the heavy industry sector, would not enlarge employment significantly, since such investments are capital-intensive. It would, therefore, he necessary that in order to encourage the production of consumer goods and generate more employment, investment be made in small industry.

5. Role of agriculture — Nehru-Mahalanohis Strategy clearly understood the role of agriculture in the process of development. Nehru, recognising the important role of agriculture mentioned : "We shall find that this industrial progress cannot be achieved without agricultural advance and progress. Everyone knows that unless we are self-sufficient in agriculture we cannot have the wherewithal to advance in industries. If we have to import food, then we are doomed so far as progress is concerned. We cannot import both food and machinery."

Evaluation of **Nehru-Mahalanobis** Strategy of Development.

The main achievements of the strategy followed during 1956-90 were as under :

1. There has been a vast expansion of the capital goods sector via the heavy industry strategy. Sixth Draft Plan of the Janata Party Government accepted this achievement in the following words: "It is a cause of legitimate national pride that over this period a stagnant and dependent economy has been modernised and made more self-reliant."

2. There was a vast expansion in economic infrastructure in the form of irrigation, energy, transport and communications, eec.

3. There was an expansion of the social infrastructure in the form of health and educational facilities — schools, colleges, universities, primary health centres, dispensaries and hospitals.

4. A significant rise in saving and investment rates was witnessed in the country.

However, there were certain shortcomings noticed in the proc'ess of implementation:

1. Although agriculture did progress, hut with relatively small allocation for agriculture, the progress could not be considered adequate. Development of agriculture required greater investment in irrigation, electricity, fertilisers, implements, pesticides etc.

2. Heavy industry strategy was heavily dependent on imports for capital intensive goods. It, therefore, developed a capital-intensive pattern of development. This resulted in a relative neglect of small industries and industries producing consumer goods. Thus, heavy industry strategy created balance of payments difficulties on the one hand and failed to absorb the rapidly. growing labour force, on the other, This resulted in a failure to enlarge employment adequately.

3. The public sector expansion led to the emergence of high cost economy with much less emphasis on efficiency. Both the undertakings of the Central Government and those of the State Government like state electricity boards, road transport undertakings and irrigation works etc., incurred losses year after year and the state exchequer was required to pay these losses out of the general tax revenues of the government.

4. Failure of exports to rise commensurate with the increase in imports necessitated by the expansion of the capital goods sector, resulted in the persistence of trade deficits and these deficits increased in magnitude with every successive plan.

Achievements and Failures of Planning during 1951-1990

As a result of 40 years of planning, Indian economy recorded progress on various fronts. It would, therefore, be desirable to list the major achievements of the Indian economy:

1. **Growth of national and per capita income:** During the first 30 years (1950-51 to 1980-81). national income grew at an average rate of 3.4 per cent per annum, but per capita income grew'barely by 1.2 per cent per annum. In terms of raising the level of living of the poor, this was not sufficient. However, compared td the British period (1900-1950), when national income increased merely at the rate of 0.5' per cent annually, the achievement in the planning area is significant.

Table 2.1 : Growth of national and per capita income (At 1980-81 prices)

Compound Annual Growth Rate	Net National Product	Per Capita Income
1950-51 to 1960-61	3.8	1.8
1960-61 to 1970-71	3.4	1.2
1970-71 to 1980-81	3.0	0.7
1950-51 to 1980-81	3.4	1.2
1980-81 to 1990-91	5.4	3.2

Source: CSO, National Accounts Statistics

The economy showed a much better performance during 1980-81 to 1990-91 and the national income grew at the rate of 5.4 per cent annually, and this helped to push up the growth rate of per capita income to 3.2 percent per annum which was quite significant. There is a need to not only maintain high growth rate of national income, but also to raise it further, if serious impact on the level of living has to be made.

2. **Growth of savings in India:** The rate of saving in India was just 10.4 per cent of gross domestic product in 1950-51 and as a result of 40 years of planning, the rate of savings reached a fairly high level of 24.3 per'cent in 1991-92. This is a matter of great satisfaction for the economic development of the country.

3. **Rise in per capita cereal consumption:** The per capita cereal consumption which was just 334 grams per day in 1951 increased to 471 grams in 1991 — a rise by 41 per cent. This is a matter of satisfaction, but unfortunately, the per capita availability of pulses declined from 61 grams to 40 grams per clay. However, the 'overall availability of food grains showed an improvement.

4. **Improvement in the per capita consumption of several basic consumer goods:** During 1950-51 to 1990-91, per capita consumption of edible oils and vanaspati increased from 3.1 kgs. to 6.4kg. The per capita consumption of milk improved from 47kgs. in 1950-51 to 66.5 kgs. in 1990-91. The per capita consumption of cloth. increased from 11 meters in 1951 to 30 meters in 1991. It may be noted that there was a much greater use of man-made fabrics by the people which had greater durability.

   Besides this, there was much greater use of the amenities of life by a large proportion .of the population. The use of bicycles, electric fans, sewing machines, refrigerators, scooters and mopeds, passenger cars, dry cells, radios and television etc. enriched the life of the people.

   On the basis of the above analysis, it can be concluded that there has been increase in the consumption of necessaries of life by the common man, though it may not be equally spread over all regions and groups.

5. **Impressive industrialization action of capital goods sector with the help of the public sector:** During the British period, capital gods sector was not developed at all.

Some consumer goods industries such as matches, sugar, cotton textiles, paper, Jute etc. were permitted to grow under the umbrella of protection. It was, therefore, essential that in a programme of industrialisation of the economy, the capital goods sector be developed. For this purpose, since private sector was not forthcoming to undertake heavy investment in capital goods industries, the responsibility was given to the public sector. As a consequence, heavy goods industries like steel, cement, locomotives, engineering, machine goods, defence industries, air craft manufacture, shipping were developed. Power and transport development was also accelerated. As a consequence, with an impressive industrialisation of the economy, India was able to provide an industrial base to its economy.

6. **Development of economic infrastructure:** Another important achievement of vital significance is the creation of economic infrastructure in the form of energy, transport and irrigation which provides the base for a programme of industrialisation. In 1950-51, road length in India was 400 thousand kms. and this increased to 1,770 thousand kms. by 1984-85— a more than fourfold increase.

   Similarly, there has been a rapid increase in irrigation. In 1950-51, the total irrigated area was only 22.6 million hectares and by 1991-92, this increased to 72.8 million hectares. As a percentage of gross cropped area, as against 16.7 per cent in 1950-51, irrigated area accounte'd for 31 per cent in 1991-92. This sharp increase in irrigation potential gave a big boost to increase production in agriculture.

   There has been a tremendous increase in power generation and consumption of energy. Electric energy generation was merely 6.6 billion kWh in 1950-51 and it increased to 269.4 billion kWh in 1990-91. This was a tremendous achievement. Consequently, our production potential in agriculture, industry and service sector was considerably enlarged. Per capita consumption of electric energy has also risen from 13.2 kWh in 1950-51 to 220 kWh in 1990-91. This strengthened the infrastructure of the economy.

7, **Achievement of self-sufficiency in food grains and raw materials:** With the development of irrigation facilities, it was possible to undertake application of high yielding varieties (HYV) of seeds with chemical fertilizers. This water-seeds-fertilizer technology in agriculture, popularly known as green'revolution helped to boost the production of food grains from 55 million tonnes in 1950-51 to 176 million tonnes in 1990-91. As a consequence, India became self-sufficient in food grains and stopped imports of food grains. Not only that substantial increases in production of sugarcane, jute, cotton etc. were also achieved. This helped to reduce our dependence for agricultural raw materials on foreign countries and encouraged the production of our agro-based indusuies.

8. **Diversification of industrial structure:** There has been a rapid diversification of industrial infrastructure in India during the 40-year period. New industries such as steel, cement, machine tools, petroleum refining, fertilizers, power transformers, locomotives, tractors, commercial vehicles, diesel engines, dry cells, drugs and chemicals have sprung up, These industries were either in a state of infancy or had not been started in he pre-independence period. This has meant a diversification of industrial structures. All these industries required trained scientific and technical personnel to manage them. India has developed a very large technical and managerial cadre to meet the needs of a diversified industrial structure. It is claimed that India has the fourth largest pool of technical manpower in the world. This has reduced our dependence on foreign experts. Not only that, India has started exporting experts in engineering and technology to Middle East 'and African countries. Tnis is a matter of legitimate pride for our country.

9. **Diversification of exports and import substitution:** As a result of industrialisation, India's dependence on foreign countries for the import of capital goods bas declined. Similarly, a large number of consumer gdods imported earlier are being produced within the country. This has led to import substitution, Consequently, the composition of our exports has changed in favour of manufactures, mineral ores and engineering goods. The share of raw materials has considerably declined. This is an index of the indusrialisation of our economy.

To conclude, it. may' be stated that India made significant achievements during 40 years of planning. These included growth of national and per capita income, a sharp increase in rate

of saving, the development of economic infrastructure in the form of energy, irrigation, transport and power generation, attainment of near self-sufficiency in food grains and agricultural raw materials, diversification of industrial structure, more especially the capital goods sector, the achievement of a substantial degree of import substitution in capital and consumer goods sector. Besides, it was able'to develop a large pool of technical manpower — the fourth largest in the world to manage the diversified industrial structure developed in India.

Failures of Planning

There were also certain fundamental failures of planning during the 40 year period.

1. **High proportion of population living in poverty:** Even after 40 years of planning, nearly 313 million persons were living below the poverty line in 1987-88. This was about 39 per cent of the total population. There is no douht that there was reduction of the proportion of population in poverty from about 55 per cent in 1973-74 to 39 per cent in 1987-88, but still the proportion was too large. The continuance of nearly 40 per cent of population living in poverty indicated a fundamental failure of planning.

2 **Continuance of unemployment and under-employment:** The planning process failed to check unemployment in India. In 1990, about 16 million persons were unemployed in the sense of open unemployment. In addition to it, about 12 million persons were severely under-employed in the beginning of 1990. The backlog of unemployment was thus of the order of 28 million. Thus, it can he concluded that the planning process failed to provide employment to the growing labour force in the country. Failure to provide employment signifies the non-fulfilment of one of the major objectives of planning.

3, **Development of an inefficient public sector:** There is no doubt that the public sector did help to provide an industrial base by establishing heavy and basic industries and by expanding the economic infrastructure, hut it is also true that public sector enterprises were either incurring losses or were yielding very low rates of returning. At the state level, the State Electricity Boards were incurring huge losses. All these losses had to be paid out 'of the general exchequer hy the people in the form of taxes. The principal causes of public sector losses were poor work ethics among the employees, low capacity utilisation, uneconomic pricing policies. overstaffing and excessive bureaucratisation and high overhead costs. Lack of autonomy to public sector executives was another major factor responsible for delay in decision-making, political interference and resulting inefficiency.

4. **Development of a license permit raj in the country:** The State, in pursuance of its Industrial Policy, developed a system of licenses and controls which acted as shackles on the freedom of the private sector to undertake investment. To set up an enterprise, a licence had to be taken from the controller of Capital Issues, Then another licence about the location of industry would be taken from the Ministry of Industry. A third licence had to be taken from the Ministry of Foreign Trade or Commerce to import plant and machinery. Business houses had to seek clearance from the Monopolies and Restrictive Trade Practices Commission (MRTPC) that they are not covered under the category of big business houses. The provisions of Foreign Exchange Regulation Act, (FERA) 1973 imposed another control. Consequently, the country developed a licence-permit raj which not only hampered investment. but gave rise to rampant corruption to procure licenses,

5. **Failure to attract foreign capital:** There is no doubt that some projects were developed with the help of foreign capital, but a large number of restrictions placed on the entry of foreign capital also prevented the free flow of foreign capital. As a result, the share of foreign capital remained very low in our economy, This resulted in lack of technical up gradation in various lines of production. Foreign collaborations which could have helped to provide supplementary savings as also improved technology and helped to strengthen infrastructure could not he attracted. Consequently, Indian industrial and infrastructural development suffered.

6. **Unnecessary emphasis on concentration of economic power:** Under socialist rhetoric, the Government has been over-emphasizing the issue of concentration of economic power. Thus, it imposed restrictions on hig business to undertake investment.

This meant that big business houses could not invest in areas requiring lumpy or large investment. Consequently, this led to unauthorized expansion of capacity which was later ratified by the Government. It also resulted in the growth of a parallel economy, popularly described as 'black economy'. All the evil effects of black money were the consequence of an unnecessary restrictions on the big business in the private sector to undertake investment.

7. Failure to **check intlotion: A** fundamental weakness of 40 years of planning was its, failure to check the rise of prices. Between 1981-82 and 1991-92, the wholesale price index rose on an average hy nearly 8 per cent per annum. This sharp rise of prices hit the common man whose real income failed to keep pace with the rising prices.

The major failures of planning during the 40 years period (1950-51 to 1990-91) necessitated rethinking about the future course of economic policy to be followed. The major issue was: should a restrictionist policy be continued or the economy should move towards liberalisation. The economic reforms introduced in 1991 by the new industrial policy were a response to the major failures of planning and our socialistic bias with over-emphasis on puhlic sector.

Check Your Progress B

1. Was Nehru-Mahalanobis Strategy justified at the time of formulation of the Second Plan? If so, give reasons.

.....

.....

.....

.....

.....

2. If not, give reasons.

.....

.....

.....

.....

.....

2.5 CONTEMPORARY ECONOMIC REFORMS

The installation of the Congress (I) government led by P.V.Narasimha Rao in 1991 brought about a radical change in economic policy. The main objectives of the **new** economic reforms wae:

1. To free Indian economy from bureaucratic controls and excessive regulatory mechanisms.
2. To open areas hitherto resewed for the public sector to the private sector since the public sector enterprises had shown a very low rate of return or were incurring losses year after year.
3. To liberalise the economy with a view to integrate it with the .world economy.
4. To remove restrictions on direct foreign investment.
5. To remove restrictions on industrial and business houses to undertake investments by abolishing the ceiling limit of assets prescribed by the Monopolies and Restrictive Trade Practices (MRTP) Act.

The main emphasis of economic reforms is on privatisation and globalisation of the economy. Although the government Wiled to transfer the ownership of public sector undertakings to the private sector in view of the strong opposition by the workers and left

parties, it did succeed in the liberalisation of the economy and opened areas of heavy industry and economic infrastructure to the private sector — hoth domestic and foreign.

The economic reforms initiated in 1991 were the basis of the planning strategy of the Eighth Plan (1992-97). .

Planning Strategy during the Eighth Plan (1992-97)

The planning strategy redefined the role of the public sector:

a) Public sector investment to be limited to areas of infrastructure development for facilitating growth; and

h) Public sector to concentrate on areas .to meet social needs like health and education as also to undertake public distribution system to protect the weaker sections of the society.

Strategy of the Eighth Plan was judicious use of market mechanism and planning to meet social goals. Growth rate of the economy picked up and was around 6.3% in 1994-95.

Foreign exchange reserves peaked to $21 billion.

These were welcome developments, but the situation from the point of view of social justice was not comfortable.

a) Consumer Price Index rose by 11.6% on the average.

b) Number of poor and population below the poverty line did not show a marked decline.

c) 'Employment target lagged behind.

Eighth Plan record may be satisfactory on the growth front, hut the market-oriented strategy has failed the people on the front of social Justice.

Check Your Progress C

1. Give the two main objectives of contemporary economic reforms in India.

.....

.....

.....

.....

.....

2.6 LET US SUM UP

During the freedom struggle, the Congress set up National Planning Committee with Jawaharlal Nehru as its chairman to draft a plan for the economic development of the country. The Committee rejected the Soviet model of total ownership of means of production on the one hand and the free capitalist model of development on the other. It opted for mixed economy framework.

The Indian society did not favour either the Soviet model of total nationalisation leading to a command economy, or the capitalist model of development with total ownership in. the hands of capitalists and landlords; but it preferred to evolve a society based on 'democratic socialism' which envisaged the mixed economy framework.

Mixed economy accepted the co-existence of the public and the private sector. However, the distinguishing feature of the Indian Mixed Economy was that it aimed to deliberately enlarge the sphere of the public sector so as to cover areas of defence, heavy and basic industries, economic and social infrastructure and public utilities. The public sector was to act as the engine of growth. The remaining sectors were left open for the private sector hut the private sector was expected to work within the limits of regulatory system designed by the state, The state decided to limit ownership in such areas where it was . believed that it came in conflict with social interest.

National Planning Commission was set up in 1950 and was assigned the task of formulating a plan for the economic development of India. The Commission laid down the long-term goals of planning: a) To increase production to the maximum possible extent so as to achieve higher levels of national and per capita income; b) To achieve full employment; c) To promote industrialisation of the economy with special emphasis on the growth of heavy and basic industries so as to achieve self-reliance; d) To reduce inequalities of income and wealth; and e) To establish a socialist pattern of society based on equality and social justice and absence of exploitation.

Economic reforms bringing about radical changes in economic policy were introduced in 1991. The main objectives were: a) To free the Indian economy from excessive bureaucratic controls; b) To open areas hitherto reserved for the public sector to private sector; c) To integrate the Indian economy with the world economy; d) To remove restrictions on foreign direct investment; and e) To remove restrictions on industrial and business houses to undertake investments by abolishing the ceiling limit on assets as prescribed by MRTP Act.

The main emphasis of the reforms is on privatisation and globalisation. Strategy of the Eighth Plan (1992-97) was based on new economic reforms. It redefined the role of the public sector. a) Public sector to be limited to areas infrastructure; and b) Public sector to concentrate on social infrastructure — health and education and public distribution system for the weaker sections of society.

Eighth Plan succeeded in achieving a high average annual growth rate of 6.1 per cent and building foreign exchange reserves, but it failed the people on the front of social justice — consumer price index rose by 11.6 per cent. The average percentage of population below the poverty line did not decline and employment target lagged behind.

27 KEYWORDS

Capitalist Model of Development: refers to the system in which all the means of production are under the ownership and management of a class known as capitalists who use these means of production with the sole aim of protit'maxirnisation.

Command Model: refers to the Soviet type of planned development where all decisions about production and distribution are centralized in a supreme authority. It is only on the dictates of the centralised supreme authority that the system operates, irrespective of the market signals.

Commanding Heights of the Economy: the term was used with reference to congrol of 'banking and insurance'. Left to the market forces, investment will be directed by market forces, but in case, banking' and insurance are nationalised, the control of investment decisions in socially desirable channels can be exercised by the state.

Democratic Socialism: economic growth with social justice within the framework of a democratic society, thus ensuring minimum level for all and a programme of maximum employment, along with a programme of action reducing economic and social disparities.

Economic Infrastructure: indicates creation of infrastructure in the torm of irrigation, energy, transport and communications.

Globalisation: refers to the process by which the economy of the country is integrated with the world economy. It involves four parameters: (i) Reduction of trade barriers so as to permit free flow of goods and services across national frontiers; (ii) Creation of an environment in which free flow of capital can take place among nation-states; (iii) Creation of an environment permitting free flow of technology; and (iv) Creation of an environment in which free movement of labour can take place in different countries,

Plan Holiday: A term coined to describe the period in which the country abandoned the formulation of the five year plans and shifted to a system of annual plans. The period referred to was 1966-67 to 1968-69.

Privatisation: refers to transfer of ownership of a public sector undertaking to the' private sector — may be company, a workers' cooperative or an individual. When 100 per cent ownership is transferred, it is a case of denationalisation. Transfer of ownership can be partial as well. In such cases, the public sector undertaking is transformed into a joint venture.

Public Distribution System: refers to the system of fair price shops to distribute articles of essential consumption to the poor at reasonable prices. The government takes the responsibility to procure and distribute essential commodities.

Social Infrastructure: indicates infrastructure in the form of schools, colleges, technical training institutes, primary health centres, hospitals, family planning and welfare centres etc.

2.8 TERMINAL QUESTIONS

1. Discuss the main elements of the concept af mixed economy developed in India. Do you consider it to be a desirable environment from the socio-economic point of view?
2. Discuss the long-term goals of planning in India. How far have they been achieved after 40 years of planning?
3. Discuss the main elements of Nehru-Mahalanobis Strategy of development. Give its principal achievements and shortcomings.
4. Discuss the rationale of contemporary economic reforms initiated after 1991.

Note: These questions will help you to understand the Unit better. Try to write answers for them, hut do not send your answers to the University. These are for your practice only.