

An Island of Stability in the Ocean of Economic Turmoil

■ Dr. T. K. Jayaraman

The Reserve Bank of India (RBI) Governor's last month observation on Indian economy, which is the title of this monthly column, is the most assuring one. The RBI governor made the statement soon after his decision on August 5 to shift to a hawkish stance of fighting the rising inflationary pressures made in the midst of a likely third, "Black Swan Event" (BSE), the brewing China- Taiwan conflict.

In fact, it is an understatement. India on the completion of the 75th year of Independence is not only a "stable" economy, as described by RBI Governor, but also an economy with full of promise. Macroeconomic indicators and the signs on the economic horizon show that India is on the threshold of joining the \$5-trillion club very soon. The IMF's *World Economic Outlook* (Updated Revised July 2022) puts the estimated growth rate for 2022 at 7.4% against RBI's conservative rate of 7.2%. Further, the late July 2022 findings of a Bloomberg sponsored survey of economists all over the world, reveal that stagflation, an unholy mix of inflation and stagnation would soon engulf word and that it would be due to fall in demand and accompanied by a decline in supply of traded commodities and prices, caused by the Covid 2019 pandemic and lock-downs in 2020-21 and the ongoing Ukraine -Russia War since February this year. The later two events are dubbed

as black swan events. According to Bloomberg, there is zero probability of recession in India.

Of course, hopes of coveted membership \$5 trillion club would materialize, only if the requirements, indeed tall ones, to which we shall return at the end of the article, are fulfilled. The next few sections of the article review the progress of India's march towards to progress and growth, reduction in poverty and redistributive measures for promoting a more equitable society. The Part 1 of the article deals with the milestones of economic journey of India from a well exploited colony by Britain and left, independent, but poor as a burden.

India's Economic Progress: 1947 - 1975

The British Labour Party, after winning the elections in 1945 decided to grant Independence first with dominion status in 1946 and eventual transfer of power in 1947. There were dire predictions. The outgoing Tory Prime Minister Churchill, known as successful war time leader World War II thundered : "If Independence is granted to India, power will go to the hands of rascals, rogues, freebooters; all Indian leaders will be of low calibre and men of straw. They will have sweet tongues and silly hearts. They will fight amongst themselves for power and India will be lost in political squabbles."

Over the last seven decades, India's achievements proved one thing: India did not get lost! The credit goes to the team led by Jawarhalal Nehru, who was the first prime minister of India, with Chakravarti Rajagopalachari, known Rajaji, whom Gandhiji called "keeper of my conscience", as the first and last Indian Governor General during 1947-50, Dr Rajendra Prasad who took over as President and Dr Radhakrishnan, Vice President when India became a Republic in 1950. They were men of character. As the head of the government, Nehru emerged as the architect of modern India. He was the beloved leader of his times, an idealist and a true democrat. He was also man with scientific temper, having graduated from Cambridge with Physics tripos.

Ably supported by a pragmatist, a home grown lawyer, Sardar Vallabhbhai Patel from Kaira District, in Gujarat, who integrated the numerous princely states with the newly emerging nation, Nehru and his team had to steer clear of the partition created problems of the world's biggest refugee movements between two nations, before embarking on a coherent economic policy for growth and development. India's GDP then was ₹ 2.7 lakh crore as against a close, ₹ 147 lakh crore today (Table 1). It is today the sixth largest economy in terms of GDP in the world only behind the USA, China, Germany, and UK pushing France to seventh place.

Nehru was not an economist. He utilized the 15-year economic plan prepared in 1944 by a group of seven industrialists, namely J.R.D. Tata, Ghanshyam Das Birla, Ardeshir Dalal, Lala Shri Ram, Kasturbhai Lalbhai, Ardeshir Darabshaw Shroff, Sir Purshottamdas Thakurdas; and one economist, Dr. John Mathai, who joined Nehru's cabinet later as finance minister in 1948. It came to be known as Bombay Plan, prepared in the wake of the decision by

Britain's Labour Party to grant Independence to India in the event of its winning the elections after the War was over.

The objectives of Bombay Plan were (i) doubling the output of the agricultural sector and a five-fold growth in the industrial sector, both within the framework of a 100 billion Rupee (£72b, \$18b) investment (of which 44.8% was slated for industry) over 15 years. The Bombay Plan believed that the economy needed "a government to protect indigenous industries against foreign competition in local markets and playing an active role by government in deficit financing and planning equitable growth, a transition from an agrarian (Table 2) to an industrialized society, and—in the event that the private sector could not immediately do so—the establishment of critical industries as public sector enterprises while simultaneously ensuring a market for the output through planned purchases".

None of them could be branded as communists by any stretch of imagination. That is the spirit of the time, when democratic socialism of the British Labour party was taking roots in the free world while Soviet Union based on the theory of communism of Karl Marx-Vladimir Lenin had already established itself as a major power and fought along with the Allies against the tyranny of Adolf Hitler's Nazi Germany. Democratic socialism was built on the thoughts of Professors Sydney and Beatrice Webb, nurtured and nourished by celebrated authors such as G.D.H Cole and Margaret Cole, with the notion that the government should be an "hindrance to all hindrances". It should produce and supply public goods such as education and health, roads and bridges and electricity and water in a mixed economy where the private sector would continue to function and meet the needs of consumer good along with thousands of farmers in rural sector. It was called "gas and water socialism." as opposed to communism which was defined by Lenin as "electricity with socialism".

The Industrial Policy 1948 and First Five Year Plan (1951-56) reflected the Bombay Plan. The Planning Commission which was set up in 1950 for planning, including resource allocation, implementation and appraisal of five-year plans. The first five-year plan focused on agriculture and irrigation to boost farm output as India was losing foreign reserves on food grain imports. The second five-year plan launched in 1956 for laying "the foundation for economic modernization to better serve India's long-term growth imperatives. It advocated rapid industrialization with a focus on heavy industries and capital goods.". The second five year plan was modeled along the lines of Soviet Union model.

Under the first five year plan (1951-56) multi purpose irrigation, flood control and hydro power projects including (Damodar Valley, Bhakra Nangal and Hirakud) and under the second five year plan (1956-61) capital intensive steel projects (Bhilai and Durgapur, and Bhilai) were completed. During this period, national institutions of importance in the areas of science and technology were established. They

TABLE 1 — Macroeconomic Indicators: GDP, Investment and Savings

	1960	1970	1980	1990	2000	2010	2015	2020	2021
GDP (constant 2015 prices) US\$ billion	136	202	271	465	801	1536	2104	2509	2733
GDP (current prices) Rs billion	176	468	1471	5761	21399	76345	137719	198009	236439
GDP (current prices) US\$ billion	37	62	186	321	468	1676	2104	2668	3173
GDP (constant prices) Rs billion	7370	10892	14644	25145	43267	83012	113695	135585	147717
GDP Growth Rate (%)	NA	5.16	6.73	5.50	3.84	8.5	8.00	-6.59	8.94
GDP per capita income (const prices 2015) US\$	302	362	388	533	757	1244	1605	1818	1967
GDP per capita (current prices) Rs.	391	843	2104	6597	20253	61853	105116	143484	169683
GDP per capita (Constant 2015 prices) Rs..	16359	196198	20951	28794	40950	67255	86779	98249	106011
GDP per capita income growth rate (%)	NA	2.9	4.3	3.4	2.0	7.0	6.8	-7.5	7.9
Gross capital formation (% of GDP)	17.9	18.2	19.6	27.3	25.7	37.4	32.1	27.9	31.2
Gross domestic savings (% of GDP)	NA	NA	14.5	21.2	26.1	32.3	32.0	28.5	30.2

Source: World Bank, World Development Indicators (2022)

TABLE 2 — Structure of output (% of GDP) and Growth rates of three sectors (1990-91 to 2019- 21 FYs)

Structure Sectors (%)	1950-51	1990-91	1970-71	1980-81	1990-91	2000-01	2005-06	2010-11	2015-16	2019-20	2021-21
Agriculture	52	48	42	36	30	23.6	19.2	18.4	17.7	20.0*	18.6*
Industry	13	15	27	19	20	29.9	32.2	33.1	30.0	26.9*	28.7*
Services	35	37	41	45	50	46.5	48.6	48.5	52.3	53.1*	52.7*
Growth Rates (%)											
Agriculture	1.5	6.7	7.1	12.9	4.1	-0.0	4.8	8.8	0.6	3.3*	3.0*
Industry	NA	11.2		0.7	5.2	5.8	9.6	7.9	9.6	-3.3*	10.3*
Services	NA	8.3	4.9	4.9	4.6	5.2	9.1	7.8	9.4	-7.8*	8.4*

Source: Asian Development Key Indicators (2022)

included National Physical Laboratory and Atomic Energy Commission. Nehru called them temples of modern India.

In the international arena, Nehru became a symbol of non-alignment in the bi-polar world. In the process, he incurred the wrath of the then powerful US Secretary of State John Foster Dulles in the Cold War years. “Neutrality amounts to immorality”, he said. As we all know, when the war broke out between Ukraine and Russia in February this year, India abstained but none dared to brand India as immoral. They needed India’s saner counsel to restrain Russia and bring about peace. Neutrality also helped to evacuate not only the stranded Indian students in Ukraine for bringing back to India but also students of other countries to get back to their countries. Further, Russia enabled to get the petroleum crude made available at a cheaper price .

With the passing away of Nehru in 1964, an era was over. President Radhakrishnan’s eulogy summed up Nehru’s contribution: “Jawaharlal Nehru was one of the greatest figures of our generation, an outstanding statesman whose service to the cause of human freedom are unforgettable. As a fighter for freedom he was illustrious, as a maker of modern India his services were unparalleled. His life and work have had profound influence on our mental make-up, social structure and intellectual development. It will be difficult to reconcile ourselves to the image of India without Nehru’s active and all-pervasive leadership.”

Growing Public Sector and Nationalization

Not being an economist, he had to rely on Planning Commission. The second five year plan borrowed the Soviet

Union’s two- sector model. That created problems was for a poor country, where savings had to come each year from consumer goods sector to keep up the required high rate of investment in the industry sector. The Soviet Union could do it through totalitarian way of forced savings by restriction on consumption. India could not afford to do it as it has adopted a democratic system. A balance of payment crisis ensued. The third five year plan (1961-66) was interrupted by Chinese Aggression in 1962, Nehru’s death in 1964 and India- Pakistan War in the Kutch, Gujarat in 1965. All these led to a plan holiday for 1966-69.

With Lal Bahadur Shastri in power, after Nehru’s death in 1964, the stress was no longer on heavy industries. The slogan was: “Jai Jawan, Jai Kisan”, bringing agriculture to the forefront along with emphasis on war preparedness. Because of a large reallocation of funds away from the farm sector, food shortages developed and inflation spiked. Shastri’s focus on food security arose from the fact that in the 1960s, India was on the verge of a mass famine, and free wheat imports under USA’s Public Law (PL) suppressed farm prices, with no support to farm sector. Professor M. S Swaminathan and his team along with Dr. Norman Borlaug and other scientists, developed high-yield variety seeds of wheat, ushering in Green Revolution. Almost around the same time, an young metallurgist, Verghese Kurien after returning from his higher education in metallurgy in the USA, set up a factory in Gujarat in his area of specialization. He soon got interested in cooperative movement in dairy sector spearheaded by Tribhovan Das Patel in Anand, Kaira District, Chairman of the Kaira District Cooperative Milk Producers Union Limited.

His efforts blossomed into AMUL (Anand Milk Union Limited), ushering another revolution, hailed as White Revolution.

In the meanwhile, the nation witnessed expansion of public sector. Several companies in civil aviation had already been nationalized by the government. The earliest was the Air Corporations Act that came into force on 28 May 1953, under which nine airlines—Air India, Air Services of India, Airways (India), Bharat Airways, Deccan Airways, Himalayan Aviation, Indian National Airways, Kalinga Airlines, and the Air India International —and replaced them with Indian Airlines and Air India International. That was the beginning of nationalization of companies in several other sectors, including banking, life insurance, general insurance and mining. As a reaction to growing public sector with acquisition of profitable private enterprises, individual enterprises and cooperative efforts on a voluntary basis in a free society have become the focus of Forum of Free Enterprise, a think tank as a reaction to the growing public sector.

The next prominent nationalization happened in 1969, when nationalization of 14 leading banks took place. That was the spark which ignited the ideological war.

A New Party against licence-permit Raj

The Forum of Free Enterprise (FFE) was set up in the year 1956 by A D Shroff, who was one of the 8 authors of Bombay Plan (1944). for countering the anti-private sector campaign and nationalization. Its objective was of an educative character by publishing pamphlets and arranging speeches by prominent liberals, who included Nani Palkiwala and

Prof B R Shenoy and Minoos Masani. Prof Shenoy’s prediction of a balance of payments crisis at the end of the second five year plan came true.

In June 1959, Rajaji and Minoos Masani, announced the formation of Swatantra Party. Its members included N. G. Ranga, K. M. Munshi, Field Marshal K. M. Cariappa and the Maharaja of Patiala. In an article, Rajaji wrote: “Since the Congress Party has swung to the Left, what is wanted is a strong and articulate Right”. The Swatantra party opposed government control over the private sector. Rajaji used the term “licence-permit Raj”, which became popular among the masses for describing the government’s cumbersome system of permissions and licences which are required for an individual to set up a private enterprise. The 1956 industrial policy restricted free enterprise and confined only to manufacturing of daily needs of consumption. Rajaji did not spare the bureaucracy either, who enjoyed special privilege of the kind the common man could not.

A later study was more pin-pointed. It said that public sector corporations served as the “personal fiefdoms of politicians and bureaucrats in power — the state thus became the “private property of the privileged few.” A few select private corporate groups took advantage of a generous infusion of funds from the nationalized banks and financial institutions under government control, resulting in the losses of the public sector duly translated into profits of the chosen few. The chosen few were described as the *New Class*. That was the title of the book by Milovan Djilas, a dissident, once touted as a successor by President Marshall Tito of Yugoslavia himself. He had to pay a price; and he was imprisoned by Tito. Once the manuscript was smuggled out of the country and published in USA in 1957. It became a sensation.

Djilas wrote:

“Our system was built only for Tito to manage. Now that Tito is gone and our economic situation becomes critical, there will be a natural tendency for greater centralization of power. This is not classical nationalism but a more dangerous, bureaucratic nationalism built on economic self-interest. This is how the Yugoslav system will begin to collapse”.

Nehru was a true democrat. He was not a dictator. He had admiration for his erstwhile colleagues and he treated them with respect. He tolerated their critical views. The most unexpected Chinese aggression in 1962 shattered the nation and his health. It was reported he had a stroke in 1963 and he never got back to his old self. He passed away in 1964. Had he been alive, history would have been different. He would have listened to sober advice and seen the writing on the wall. That was not to be.

The next prime minister Shastri who started well but could not continue for long, He was succeeded by Indira Gandhi. She believed in the state capitalism. To her the goal was

rightly, *Garibi Hato*. The means adopted were not new. Same old nationalization and expansion of public sector centralist of power. The 1969 nationalization of banks was soon an economic nightmare. Access to credit alone would not enable the poor without other inputs and supportive infrastructure which were in short-supply to produce and earn income. The result was rise in defaults. Subsequent governments have to bail out the public sector banks.

The 1971 Bangladesh Liberation War was a personal triumph for Indira Gandhi. Her popularity soared, which fetched her another victory at the General Elections in 1974. However a legal battle in 1975 on the grounds of violation of a campaign rule proved a defeat for her. The 1975 judgment by Allahabad High Court rendered Indira Gandhi's election as null and void. An ill-advised imposition of emergency by her as a tool to hold on to power became a turning point in the economic history of the nation as well, besides being a political watershed. She arrested her political enemies and put them in prison. The nation voted her out of power in 1976. However, the Spirit of 1976 soon evaporated. In-fighting in the ruling Janata Party enabled her to get back to power. A sobered Indira

Gandhi, however, did not last long. She was assassinated in 1984 for an entirely non-economic reason, and her rule was brought to an unexpected end. In the next five years, the world changed fast, first with the Fall of Berlin Wall, the symbol of oppression, in 1989; and the end of the Soviet Union in 1991. But, it was the dawn of a new "World of freedom and hope".

Part II would deal with economic reforms towards liberalization of the Indian economy in the New Millennium. ■



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