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Economic Change in India since Independence (1947-1965)

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Abstract

The attainment of freedom on August 15, 1947, was itself a landmark achievement in the history of India. It witnessed tremendous changes within India and the world in general. The pitiful condition of India that we inherited at independence after colonialism had ravaged the economy and society for nearly two hundred years and deprived it of the opportunity of participating in the process of modern industrial transformation occurring in other parts of the world. Apart from extreme poverty, illiteracy, a ruined agriculture and industry, the structural distortions created by colonialism in the Indian economy and society made the future transition to self-sustained growth much more difficult. This has been carried through the Five Years Plans, developed, executed, and monitored by the planning commission. The planning commission has been entrusted with the responsibility of the creation, development and execution of India's five years plan.

A considerable change on several fronts was made during the first phase of the development effort, spanning the first three Five Years Plans. The overall economy performed impressively compared to the colonial period. This study is an attempt to find out the economic change/ progress that took place after independence, during the period from 1947 to 1965.

Key Words - Freedom, Planning, Economic progress/change.

The attainment of freedom on August 15, 1947, was itself a landmark achievement in the history of India. It witnessed tremendous changes within India and the world in general. A meaningful appraisal of India's development experience after independence would have to place it both in a historical and comparative context. The level and stage from which the beginning was made, and the uniqueness of the effort to undertake an industrial transformation, within a democratic framework need to be taken into account; the achievements should be measured with other countries at a comparable stage of development. The pitiful condition of India that we inherited at independence after colonialism had ravaged the economy and society for nearly two hundred years and deprived it of the opportunity of participating in the process of modern industrial transformation occurring in other parts of the world. Apart from extreme poverty, illiteracy, a ruined agriculture and industry, the structural distortions created by colonialism in the

Indian economy and society made the future transition to self sustained growth much more difficult[1].

Before independence the economy of India was not stable. It was largely agrarian and more than 80% of the population was engaged in agriculture. The yield per acre was low and there was a persistent threat of drought and flood, there was no efficient canal and irrigation facility. There was no industry to manufacture goods only the textile industry faced the highly competitive goods and industry manufactured goods from England. The partition adversely affected the economy of India particularly in the matter of food grains and agricultural product. An equally unhappy situation faced independent India in the matter of textile industry. The situation of cotton textile industry was also unhappy[2]. As far as the general industry was concerned, India's resources were largely unimpaired. Almost all the resources like coal, iron ore, manganese and mica were located in India. The shortage of foodstuff was a big problem before the government of free India.

While undertaking this difficulties and complex task, India, unlike many other post-colonial societies, had certain advantages. **First**, a small but independent industrial base had emerged. Indian entrepreneurs had successfully completed with European enterprise in India and with foreign imports, in the process capturing about 75% of the market for industrial produce in India. By independence, therefore, India had, 'inspite'of and in opposition to colonialism', developed an independent economic base from which to attempt a takeoff in to rapid independent industrialization.

Second, India was fortunate to have a broad societal consensus on the nature and path of development to be followed after independence. For example, the Gandhians, the socialists, the capitalists as well as the communists, were all more or less agreed on the agenda like a multipronged strategy of economic development based on self-reliance; rapid industrialization, based on import substitution, including of capital goods industries; prevention of imperialist or foreign capital domination, abolition of Zamindari etc[3].

Economic Policy and Its Implementation:

After independence Jawaharlal Nehru became the Prime Minister of India. He believed that there must be industrial development at all costs. According to him, a country without highly developed large scale industries could not count in the modern world. On the other hand, Gandhiji was in favour of autonomous villages where the panchayats should perform legislative, executive and judicial functions. The economic policy of free India rejected Gandhijis objection to the growth of cities, but in a way, accepted the reforms of Panchayat Raj. When India attained Independence, industries were grouped in to three categories. Armaments, railways, transport and certain other industries were belonging to the first category became a government monopoly[4].

The second category contained a list of basic and strategic industries such as coal, iron and steel, ship building and mineral ores and the responsibility of their future development was vested with the state. Third category covered the rest of the industrial field which was open to private enterprise. The policy was reiterated through the Industrial Policy Resolution of April 1956. This shows that Nehru was in favor of encouraging private enterprise. The coexistence of public sector and private sector in industry is called a mixed economy. The policy resolution covered also the investment of foreign capital in India.

In pursuance of the principal of socialism the government nationalized various institutions and industries. The Imperial Bank of India became a policy-managed State Bank. Life insurance was nationalized. The state trading corporation was established in1955. In respect of labour there is a statutory Fixation of minimum wages and award of bonuses. All these restraints were necessitated during Nehru's rule in order to protect the "have-nots" from the exploitation by the "haves"[5]. During Nehru's day's economic policy towards foreign countries was appreciated even by foreigners. Foreign businessmen had not suffered serious discrimination. The government believed that the recruitment of foreign techniques and skilled personnel would eventually facilitate the training of Indians. The state Trading Corporation was established in 1955 primarily to handle trade with communist countries.

Planning for Development:

Since 1947, the Indian economy has been premised on the concept of planning. This has been carried through the Five Years Plans, developed, executed, and monitored by the planning commission. For the smooth function of any economy, planning plays an important role. The planning commission has been entrusted with the responsibility of the creation, development and execution of India's five years plan. Jawaharlal Nehru wrote in 1946 "Nearly all our problems today have grown up during British rule and as a direct result of British Policy; the prices; the minority problem; various vested interests, foreign and Indian; the lack of industry and the neglect of agriculture; the extreme backwardness in the social services; and above all the tragic poverty of the people[6]. Indian economists maintain that in India, Britain followed a systematic policy of "planned underdevelopment" which left a gap in the country's economy that will take a long time to fill. IN 1947, India's industrial base was weak. There was too much pressure on land and the standard of living was poor while the opportunities for employment were limited[7].

The perspective with which the planning commission was established on 15 March 1950, functioned, despite the enormous defecto power it exercised with Nehru himself as its Chairperson. Four long-term objectives of the planner in India were: - 1. to increase production to the maximum possible extent so as to achieve higher level of national and per capita income; 2.to achieve full employment; 3.to reduce inequalities of income and wealth; 4.to set up a socialist society base on equality and justice and to ensure absence of exploitation[8].

The First Plan (1951-56): The First Five Year Plan was presented by Jawaharlal Nehru, who was the Prime Minister during that period. Just after independence, India faced three major problems- rehabilitation of refugees, severe food shortage and inflationary pressure on economy. Thus the plan accorded the highest priority to agriculture including irrigation and power projects. The total investment on the development of basic industry including small scale industry and mineral development was listed at 173 cores even though the initial emphasis was laid on increasing production, the plan did not limit itself to achieve material progress only and therefore, it provided for investment in the development of human resources also[9]. It built a particular system of mixed economy, with a great for the public sector, as well as growing private sector. This plan was based on the Harrod-Domar model with few modifications. The primary aim and objective of first five year plan was to improve living standards of the people of India. This could be done by making judicious use of India's natural resources. The First plan with a total outlay Rs. 2378 crore was rather haphazard venture, as the planning commission had no reliable statistics to work upon. This amount was assigned to different sector which included in industrial sector, energy, irrigation, transport and communication, social service and other sector and services. The most important feature of this phase was active role of state in all economic sectors. Such a role was justified at that time because immediately after independence, India was facing basic problems-deficiency of capital and capacity to save. All the same, the plan had a national character and was based on a rational hypothesis[10].The target growth rate was 2.1%, the achieved growth rate was 3.6%, and the net domestic product went up by 15%. National income increased more than the per capita income due to rapid population growth[10]. The plan was quasi success full for the government.

The Second Plan (1956-61): The second plan was particularly in the development of public sector. It laid special stress on heavy industries. The plan followed the celebrated Nehru-Mahalanobis strategy for development was put into practice. This plan was conceived in an atmosphere of economic stability. The targets fixed in the First plan were broadly achieved particularly in the field of agricultural development. Henceforth, a forward thrust was planned for development of heavy and basic industries[11]. Main objectives of the second plan were– (i) an increase of 25% in the National income; (ii) rapid industrialization; (iii) large expansion of employment opportunities; (iv) reduction of inequalities in income and wealth. In the second five year plan Mahalanobis model addresses different issues pertaining to economic development. According to Mahalanobis model, it is assumed that the economy is closed and has two segments-(1) segment of consumption goods, (2) segments of capital goods. Capital goods cannot be moved or are "non-shift able". As many as five steel plants including the ones in Durgapur, Jamshedpur, as well as Bhilai were set up as per the second five year plan. Hydroelectric power plants were formed during this period. There was considerable increase in production of coal. Atomic Energy Commission was also setup in the year 1957. During the same period, Tata Institute of Fundamental Research was born[12]. The institute conducted several programs to search for talent individuals.

The plan assumed a closed economy in which the main trading activity would be centered on importing capital goods. Private sector was left to handle consumer industries. But the great quantity of imports that the plan envisaged in both public and private sectors. The target growth rate was 4.5% and the actual growth rate was. 4.27%.

The Third Plan (1961-66): The Approach of the third plan was basically a continuation and an implementation of the First and Second five years plans. It envisaged a development out lay of Rs.7250 crores in the public sector. A basic element of this period was the rapid development of heavy and capital goods industries in India, mainly in public sector. This plan also laid considerable stress on the agriculture sector. However, with the short lived Sino-Indian war of 1962 India diverted his attention to the safety of the country. The target growth rate was 5.6%, but the actual growth rate was 2.4%. Due to miserable failure of the third plan the government was forced to declare "Plan holidays" (from 1966-67, 1967-68 and 1968-69). The main reasons for plan holidays were the war, lack of resources and increase in inflation[13]. In spite of many difficulties and challenges Co-operative movement got great impetus .Co-operative societies were established for providing credit as well as marketing facilities. Number of primary agricultural and multipurpose societies which was little over one lakh with a total membership of 4.4 million in 1950-51 doubled and the membership increased over fivefold by 1963-64.Total production of cotton cloth have appreciably increased. In 1960 production of cloth was 33 percent higher than it was in 1950. India made a great headway in the production of crude petroleum. Following table 1.1 reflects the growth pattern in various sectors.

Table-1.1. Indices of Industrial Production in India (1951-1971)

Industrial Group–	1951	1961	1971
General–	55	109	153
Textiles–	80	103	106
Basic metals–	47	119	209
Machinery–	22	121	373
Electrical Machinery–	26	110	405

Source- India since independence, by B. Chandra p–328

The achievements of the first two plans were great. Nehru played a vital role in the socio-economic development of India. It has been estimated that during this period the national income rose by 42 percent and income per head by 20 percent. However, during the last two years of the third plan progress considerably slowed down[14]. What it might be, after independence there have been many changes in the socio-economic landscape of Asia's third largest economy. During the decades that followed the colonial rule, India's economy, in absolute terms has expanded to Rs. 57 lakh crore from mere Rs.2.7 lakh crore and the nation's foreign exchange reserves have crossed 300 billion, giving the economy fire power to fight external shocks.

Thus, considerable changes and progress on several fronts was made during the first phase of the development effort, spanning the first three Five Years Plans. The overall economy performed impressively compared to the colonial period. India's national income or Gross National Product (GND) grew at an average rate of about 4 percent per annum, between 1951 and 1965-66 excluding the last year of the third plan i.e.; 1965-66, which saw an unprecedented drought and war. This was roughly four times the rate of growth achieved during the last half century of colonial rule[15]. The rate of growth achieved by India after independence compared favorably with the rates which achieved by the advanced countries at a comparable stage i.e.; during their early development. Stepping up the rate of growth required a substantial increase in the investment rate. During the first three plans (leaving out 1965-66),Indian agriculture grew at an annual rate of over 3 percent, a growth rate of 7.5 times higher than that achieved during the last half century or so of the colonial period. The growth rate achieved compared very favorably with that was achieved by other countries in a comparable situation[16]. An important achievement in this period was the rise of savings and investment rates. On the basis of rather rudimentary data, the draft outline of the Fourth plan estimated that domestic saving and total investment in the Indian economy were both 5.5% of national income in 1950-51, rising to savings of 10.5% and investment of 14% in 1965-66.

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