NATURE OF THE INDIAN ECONOMY

The Indian economy is rightly characterized as an underdeveloped economy. Though it no longer suffers from stagnation as it did under the British, the development since Independence has not been spectacular. Further, having missed the opportunity to develop along the traditional capitalist path during the last two centuries, India opted for a planned capitalist development, and accordingly built up a mixed economy. In this chapter we propose to discuss the following issues:

- Facts to suggest that the Indian economy even now is an **underdeveloped economy.**
- Having overcome the problem of stagnation, the Indian economy has been steadily growing since the beginning of economic planning. Hence shall we characterise it as a **developing economy?**
- In India earlier planners were committed to build a 'socialist pattern of society'. However, over the years what has emerged is a **mixed economy** in which both private and public sectors co-exist and the former sets agenda for the growth of the economy.

INDIA — AN UNDERDEVELOPED ECONOMY

Whatever be the criteria, the Indian economy is presently an underdeveloped economy. Almost all important characteristic features of an underdeveloped economy were present in the Indian economy at the time of Independence and have not changed much since then.

1. Low per capita income. Compared with the developed countries of the West, Indian economy was appallingly poor in the early 1950s, and since then its economic distance with them has steadily increased. On the basis of per capita income, India was among the few poorest countries at the time of Independence. This poverty and backwardness India had inherited from the colonial rule.

After Independence the government wanted to give a 'big push' to the standstill economy and for this purpose, it employed the technique of 'democratic planning'. With the efforts of the government some development has indeed taken place during the five decades of planning, but India still remains one of the most underdeveloped countries in terms of per capita income. One can have some idea of the plight of the people in this country from the fact that, India still remains a low income economy.

According to *World Development Report 2007,* India was one of the 45 low income economies in 2005. Thus per capita GNP was higher in all the middle and higher income economies than in India. Even in the category of low income economies as many as seven countries had higher pe capita GNP than that in India. The economic distance between the most developed countries and India has also increased over the years. In 2005 India's Purchasing Power Parity estimate of GNP per capita was as low as $ 3,460. It was around *one-twelfth* of the U.S.A.'s PPP estimate of GNP per capita which stood at $ 41,950 in that year. No doubt national income statistics of various countries are not comparable because of the differences in respect of concept of national income and degree of reliability of data, nevertheless, for broad comparisons they can be gainfully used. Therefore, when we discover from these data that India's PPP estimate of GNP per capita is around one-ninth of the GNP per capita of developed countries (which stood at $ 32,524 in 2005), we not only learn about the existing plight of the people in this country, but also know about the stupendous task which this country has ahead of it.

2. Inequitable distribution of income. The distribution of income and wealth in India is inequitable. This is not at all surprising because private ownership of means of production inevitably leads to concentration of wealth in a few hands. Income inequalities result from the concentration of wealth and capital. The government and the economic planners were aware of the economic inequalities in the early 1950s but they were possibly ignorant of the fact that economic growth in an essentially capitalist economy has a tendency to accentuate disparities in income distribution.

In 1997, according to *World Development Report 2000/2001*, while the lowest 40 per cent households accounted for 19.7 per cent of the aggregate household expenditure in India, the share of top 20 per cent in it was as large as 46 per cent. In the middle category 40 per cent households at modest level of living accounted for 34.3 per cent of the aggregate household expenditure. **The Gini Lorenz Ratio was 0.378 in 1997 as against 0.297 in 1994.[1] Thus during the 1990s inequalities in household consumption expenditure had increased as a result of pro-rich liberalisation policies.**

3. High Incidence of poverty. The problem of mass poverty is a natural outcome of income inequalities. The Planning Commission acknowledged the fact of widespread poverty in the country in the *Sixth Five Year Plan 1980-1985*. The Plan document stated that using norms of calorie consumption, the percentage of population below the poverty line in 1979-1980 was estimated at 50.7 per cent in rural areas and 40.3 per cent in urban areas. For the country as a whole the percentage of poor was as high as 48.44.[2]

According to the Planning Commission, the overall percentage of the people below the poverty line had declined to 36.0 per cent in 1993-94 while the incidence of poverty was 37.3 per cent in rural areas and 32.4 per cent in urban areas.[3] Now the latest estimates of incidence of poverty are available for 2004-05. These estimates are based on the data made available from the Consumer Expenditure Survey of the 61st Round. According to these estimates, the poverty ratio was 27.8 per cent at the national level if **Uniform Recall Period (URP)** was used. In URP, data on consumption expenditure for all items are obtained from 30 day recall period. Incidence of poverty at the national level was 22 per cent in 2004-05 if **Mixed Recall Period (MRP)** was used.[4] In MRP, data for 5 non-food items, namely, clothing, fertilizers, durable goods, education and institutional medical expenses are collected from 365 day recall. Consumption expenditure data for other items are obtained from a 30 day recall period. However, these estimates are not strictly comparable with the earlier estimates due to changes in methodology of collecting data.

The latest comparable estimates from URP are available from 54th Round of the NSS for January 1998 - June 1998 which show that 44.9 per cent population in rural areas and 31.6 per cent

1. The Gini Lorenz Ratio is a summary measure of the extent to which the actual distribution of income differs from a hypothetical uniform distribution in which each person or a household receives an identical share. The Gini Lorenz Ratio has a maximum value of 1.0 (100 per cent), indicating that one person or household receives everything, and a minimum value of zero, indicating absolute equality.
2. Government of India, Planning Commission, *Sixth Five Year Plan, 1980-85*, (New Delhi, 1951), p. 52.
3. Government of India, Planning Commission, *Ninth Five Year Plan* Volume I, (Delhi, 1999), Table 1-9, p. 27.
4. The National Sample Survey Organisation, 61st Round.

population in urban areas was below the poverty line.[5] **These estimates show that since the late 1970s there has been a decline in incidence of poverty. Nevertheless, the percentage of population below the poverty line is still quite high.**

4. **Predominance of agriculture.** Occupational distribution of population in India is not at all satisfactory and clearly reflects the economic backwardness of the economy. In 1951 about 249 million people, that is, about 70 per cent of the population of the country was dependent on agriculture for its subsistence. Since then very little change has occurred in the situation. Even when we consider the working population we reach the same conclusion. **In 1951 around 69.7 per cent of the working population was employed in agriculture. As against this, in 1991 around 66.9 per cent of the working population was absorbed in agricultural operations.** NSSO and Ministry of Labour have, however, pointed out that there has been a significant decline in employment in agriculture during the 1990s in percentage terms. In 2001, 56.9 per cent of main workers were employed in agriculture and allied activities. Thus agriculture still remains the biggest employer in India.[6]

Box 5.1

India's Underdeveloped Economy

- India's GNP per capita in 2004 — $ 720
- India's PPP estimate of GNP per capita in 2004 — $ 3,460
- Growing Income Inequalities during the 1990s
  — Gini Lorenz Ratio in 1997 — 0.378
  — Gini Lorenz Ratio in 1994 — 0.297
- High incidence of poverty in 2004-05 (NSSD 61st Round)
  — Unified Recall Period (URP): 30 days recall — 27.8%
  — Mixed Recall Period (MRP): 22%
- Current Daily Status (CDS) unemployment in 2004-05 (61st Round of NSSO)
  — Rural Males 5.0 per cent
  — Rural Females 8.7 per cent
  — Urban Males 7.5 per cent
  — Urban Females 11.6 per cent
- GDP by economic activity in 2004-05 (at 1999-2000 prices)
  — Primary sector: 23.0%
  — Secondary sector: 23.8%
  — Tertiary sector: 52.2%
- Main Workers by Industrial Categories
  — Agriculture and allied activities 56.7%
  — Manufacturing and allied activities 18.6%
  — Tertiary activities: Services 24.7%
- Human Development in 2004
  — HDI value 0.611
  — HDI rank 126th
  — GDI value 0.591
  — GDI rank 96th

5. The National Sample Survey Organisation, 54th Round.
6. Planning Commission, Government of India, *Tenth Five Year Plan*, Annexure 5.2, p.160.

A second indicator of the predominance of agriculture in the Indian economy is the proportion of national income originating in this sector. In 2005 agriculture contributed 19 per cent of the Gross Domestic Product. This is indeed substantially less than the share of agriculture in Gross Domestic Product in 1950-51 (when it contributed more than 50 per cent). But this is not a big achievement considering the fact that about five and a half decades of planning have already been completed. We have given percentages of Gross Domestic Product by industry of origin for some selected countries representing both developed and underdeveloped economies for 2005 in Table 5.1. The figures eloquently suggest that the reliance on agriculture in India is far greater than even in some other Third World countries such as Indonesia, China, Mexico, Brazil, and Republic of Korea.

Table 5.1

Gross Domestic Product by Industry of Origin in 2005 (Percentages)

Country	Agriculture	Industry	Services
U.K.	1	26	73
Germany	1	29	70
France	2	22	76
Republic of Korea	4	41	55
Mexico	4	26	70
Brazil	10	38	52
China	13	46	41
Indonesia	14	41	45
India	19	28	54

N.B. Since percentages have been round up, they do not add up to 100 in certain cases.
Source: World Bank, *World Development Report 2007,* Table 4, pp. 294-5.

5. Rapid population growth and high dependency ratio. Over the years population in India has been growing at a fast rate. According to the estimates of the 2001 Census, the population of India was 1,025 million as against 439 million in 1961. Thus **population in India over these years had increased roughly at the rate of 2.14 per cent per annum** and according to the present indications it appears that the rate of population growth may not decline substantially in the immediate future. The country is at present passing through the second stage of demographic transition which is characterized by a falling death rate without a corresponding decline in birth rate. This has resulted in population explosion partly offsetting the small gains of development which this country had made during the planning period. J.J. Spengler has argued that an increase in population raises the ratio of people to land and other sources of raw materials and as a consequence, production tends to decline per unit of variable cost in the concerned industries.[7] The trend is clearly discernible in Indian agriculture. Over the years per head agricultural land has steadily declined in this country on account of rapid growth of population. Land reclamation which was possible only on a modest scale was not enough to offset the increasing pressure of population on agricultural land. The pressure of population on agricultural land in a country can be reduced only if it is possible to transfer some population to other sectors of economic activities. But in India, growth of industries and commerce has been rather sluggish and inter-sectoral transfer of population has not been possible. Consequently, the pressure of population on agricultural land continues to grow swelling the number of disguised unemployed. In India, rapid growth of population has also resulted in a high dependency ratio. In 1999-2000 percentage of population of working age (15-64 years) in India was 63.8 as against 66.9 in developed market economies.

7. J.J. Spengler, "Population Change: Cause, Effect, Indicator", *Economic Development and Cultural Change,* Apr 1961, p. 253.

6. Low level of human development. Human development is usually measured in terms of Human Development Index (HDI) constructed by the United Nations Development Programme (UNDP). The HDI is a composite of three basic indicators of human development — longevity, knowledge and standard of living. ***Longevity*** is measured by life expectancy at birth; ***knowledge*** (or educational attainment) by a combination of adult literacy (two-thirds weight) and combined primary, secondary and tertiary ratios (one-third weight); and ***standard of living*** is measured by real GDP per capita (purchasing power parity, PPP, in dollars).

Table 5.2 prepared from *Human Development Report 2006* presents HDI value and ranking for some developed and developing countries and their comparison with real GDP per capita ranking.

Table 5.2

HDI Value and Ranking of Selected Developed and Developing Countries, 2004

Country	*HDI value 2004*	*HDI Rank 2004*	*Real GDP per capita (PPP $) 2004*	*Real GDP per capita (PPP$) rank minus HDI rank**
Developed Countries				
Norway	0.965	1	38,454	3
Japan	0.949	7	29,251	11
U.S.A.	0.948	8	39,676	–6
France	0.942	16	29,300	1
U.K.	0.940	18	30,821	–5
Developing Countries				
Cuba	0.826	50	...	43
Mexico	0.821	53	9,803	7
Malaysia	0.805	61	10,276	–4
Brazil	0.792	69	8,195	–5
China	0.768	81	5,896	9
Sri Lanka	0.755	93	4,390	13
Egypt	0.702	111	4,211	–2
India	0.611	126	3,139	–9
Bangladesh	0.530	137	1,870	7
Ethiopia	0.371	170	756	1

* A positive figure indicates that the HDI rank is better than the real GDP per capita (PPP $) rank, a negative the opposite.

Source: UNDP, *Human Development Report 2006* (Delhi: Oxford University Press, 2006), Table 1, pp. 283-6.

As is clear from Table 5.2, **India with a HDI value of 0.611 ranks a lowly 126 in terms of HDI.** China with HDI value of 0.768 and Sri Lanka with HDI value of 0.755 ranked 81 and 93 respectively. On the basis of the HDI rankings calculated for 177 countries, *Human Development Report 2006* places 63 countries in the high human development category. In this category besides the developed countries, some developing countries like Cyprus, Barbados, Argentina, Uruguay, Cuba and Mexico are included. In the medium human development category, there are 83 countries. The more prominent countries in this category are Brazil, Thailand, Sri Lanka, China, Vietnam, Indonesia, India and Bangladesh. 31 countries comprise the low human development category. Rwanda, Cameroon, Kenya, Zambia, Nigeria, Senegal, Madagascar and Ethiopia figure in the low human development category.

7. Unemployment. Widespread unemployment is perhaps the most striking symptom of inadequate development in India. Since 1972-73 reliable estimates of unemployment are available from the various Rounds of the NSSO (National Sample Survey Organisation) surveys. These estimates are in terms of three concepts: the usual status, the weekly status and the daily status.[8] Estimates of the usual status indicate only the open unemployment. The more comprehensive measure of unemployment, however, is in terms of the daily status unemployment. Presently the latest estimates of unemployment are available for 2004-05 from the 61st Round of the NSSO. According to these estimates, in 2004-05 the current daily status unemployment rate for rural and urban male workers was 8.0 and 7.5 per cent respectively. Considering the fact that employment elasticities in major sectors have been falling drastically since 1983, these rates seem to be underestimates of unemployment. Moreover, this fact cannot be ignored that in recent years absolute number of the unemployed has risen. According to the Planning Commission, current daily status unemployment at the end of 2001-02 was 3.49 crore.[9] During the 1990s unemployment situation deteriorated. The results of the latest 61st round of the National Sample Survey (NSS) show that unemployment had indeed gone up by 4-5 per cent, as per the usual status. Using the daily status figures which are more acceptable measure of employment, the unemployment level had gone up by 9-10 per cent between 1999-2000 and 2004-05.[10]

The nature of unemployment in India is different from that in developed countries. Most of the unemployment to be found in the developed countries of the West is cyclical. In contrast, **unemployment in India is chronic and results from the structural defects in the economy.** People in a large number in the countryside do not have adequate work throughout the year and many of them suffer from disguised unemployment for long periods. According to Ragnar Nurkse, if some of these people are removed from agriculture and absorbed in other productive activities, farm output may not fall, while the national income will increase due to their productive activity in the sector of their absorption. This policy if properly implemented may also succeed in realising the potential capital accumulation which remains concealed in disguised unemployment. The problem of urban unemployment in India has assumed two forms. First, the failure of the industrial sector to grow at a fast enough rate to absorb the growing urban population has resulted in what is usually called industrial unemployment. Secondly, expansion of general education has created unending demand for white collar jobs which the country's urban economy has failed to meet. Thus the ranks of educated unemployed continue to swell and presently a solution to this problem is not in sight.

8. Scarcity of capital. Of all factors of economic development, capital is considered to be the most important. In fact, it is the accumulation of capital that alone can help a country in its attempt to overcome its economic backwardness. Kuznets has very aptly remarked, **"Low capital formation proportions means low rates of growth of national product, unless capital-output ratio declines, i.e., unless more output can be turned out per unit of capital."**[11] Since there is a continuous shift in favour of capital-intensive techniques in the Third World countries, capital-output ratios cannot be expected to fall. Therefore, if these countries have to grow, they have no choice except to raise their rates of capital accumulation. This has been precisely India's problem during the last five decades. In 1950-51 the gross saving-investment rate in this country was around 8.9 per cent. Obviously at this rate of capital formation, the country could not hope to record any impressive economic growth. Over the planning period both saving and investment rates have risen. In 1970-71 rates of gross domestic saving and gross domestic capital formation were 14.6 and 15.4 per cent respectively. Since then both saving and investment rates have registered modest growth.

8. For definitions of these concepts of unemployment, see the Chapter on "The Problem of Unemployment."
9. Government of India, Planning Commission, *Tenth Five Year Plan*, p. 114.
10. Government of India, *Economic Survey 2006-2007*, (Delhi, 2007), Table 10.5, p. 210.
11. Simon Kuznets, *Six Lectures on Economic Growth* (Glencoe, 1959), p. 70.

According to the estimates of C.S.O., rates of gross domestic saving and gross domestic capital formation in 1990-91 were 23.1 and 26.3 per cent respectively. Subsequently there was a decline both in the rate of gross domestic saving and the rate of gross domestic capital formation. In 2001-02 the rates of gross domestic saving and gross domestic capital formation were estimated to be 23.5 and 22.9 per cent respectively. These rates of saving and capital formation are enough to realise only a modest rate of growth. This explains why in India the rate of growth remained stuck at a relatively low level. Strangely, estimates of savings and investment for 2003-04 and quick estimates of savings and investment for 2004-05 announced by the CSO surprised everybody. The gross domestic savings rate for 2004-05 has been estimated to be as high as 31.3 per cent by the CSO while gross investment rate in this year has also been claimed to have risen to 31.5 per cent. In 2005-06 the rates of gross domestic savings and gross domestic capital formation continued to rise. They stood at 32.4 per cent and 33.8 per cent respectively. This implies that in 4 years period savings and investment rates have increased by 9-10 percentage points which seems to be doubtful. According to *Economic and Political Weekly* editorial (February 12, 2005), **"The investment rate, which stands at 26.6 per cent for the year (2003-04) according to accepted commodity flow method, when adjusted for 'errors and omissions' is pushed to 28.0 per cent. This is an indefensible procedure. When the figures are examined carefully the domestic savings and investment rates stand at a more modest 25 per cent and 23 per cent respectively."**[12]

In contrast, the rates of economic growth have been remarkably high in some of the East-Asian countries. All these countries had the rates of saving and capital formation consistently over 35 per cent of GDP for long periods. **High rates of saving and capital formation allow an economy to grow at a fast rate, introduce latest technologies and become internationally competitive.**

9. Technological backwardness. While technological progress is at the heart of development process, over a wide range of productive activity, techniques of production are backward in India. Agriculture which provides subsistence to about two-thirds of the population is even now characterized by highly backward techniques. Except in the green revolution belt of the country everywhere else farmers are persisting with centuries old outmoded production techniques. Their failure to switch over to modern techniques, however, cannot be explained in terms of their ignorance. Modern technology is certainly scale neutral, but it is not resource neutral. Therefore, the small and marginal farmers who constitute the overwhelming majority have, on account of their poverty, failed to adopt new technology which in turn has kept agricultural productivity appallingly low. However, in large-scale industries, energy, transport and communications sectors modern production techniques have been introduced. Nevertheless **there still exists a wide gap between the sophisticated production techniques of the developed countries and India's technology.** Over the years this country has built up substantial capability in science and technology and if it harnesses this resource in a purposeful manner it can overcome one of its major obstacles to economic development.

10. Lack of entrepreneurs. Joseph A. Schumpeter has assigned a vital role to entrepreneurs in his theory of growth. According to him, "the function of entrepreneurs is to reform or revolutionize the pattern of production by exploiting an invention or, more generally, an untried technological possibility for producing a new commodity or producing an old one in a new way by opening up a new source of supply of raw materials or a new outlet for products, by reorganising an industry and so on."[13] Obviously these activities require aptitudes that are present only in a small fraction of population. Therefore, if some society possesses people who are gifted with entrepreneurial skill, it is bound to grow rapidly. Some economic historians contend that the

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12. Editorial, "Saving and Investment : How Buoyant," *Economic and Political Weekly*, (February 12, 2005), p. 587.
13. Joseph A. Schumpeter, *Capitalism, Socialism and Democracy* (New Delhi, 1980), p. 132.

had a major role in their development. presence of this class in England, Germany and the U.S.A. had a major role in their development. In contrast, such a class did not exist during the British period in India.

Even in the later phase of the British rule, the private enterprise did not fulfil any of the basic conditions of economic growth. During post-Independence period the role of private enterprise in development has been most disappointing. The country even now does not seem to have many Schumpeterian innovating entrepreneurs. Industrialists in India generally concentrate on quick, speculative profits rather than on the long-term industrial development of the country. From this point of view information technology sector is an exception. In this industry there are some good entrepreneurs like N.R.Narayan Murthy and Azim Premji. However, they have failed to inspire industrialists in other sectors. JRD Tata and Reliance industries founder Dhirubhai Ambani still remain the role models and it is difficult to name any other entrepreneur in the industrial sector.[14]

INDIA — A DEVELOPING ECONOMY

In our foregoing analysis we have underlined the fact that the Indian economy is still underdeveloped. But this is not an adequate description of the nature of the Indian economy. India's economy had suffered a long period of stagnation under the British. After Independence this long spell of stagnation was broken. With the beginning of economic planning, an era of economic development was ushered in. **Economic development in India has broadly two facets (1) quantitative and (2) structural. For assessing the development process in this country in quantitative terms, national income trends during the five and a half decades of economic planning should be examined. But still more necessary is to take note of the structural changes in the economy that have taken place in this period.**

National Income Trends

Immediately after Independence, India was bogged down in the problems created by the partition of the country. World War II had also left certain problems such as inflation and food shortages. All these problems required an urgent solution, otherwise the process of development could not be initiated. Therefore, for a year or two, economic development was not on the country's agenda.

Rise in net national product. The CSO has now constructed a new series of national income with 1999-2000 as base. However, for an analysis of national income trends we shall rely on the previous series (Base year 1993-94) which provides estimate of income beginning from 1950-51 while the new series begins from 1999-2000. According to the previous series, India's net national product (NNP) at factor cost (national income) was Rs. 1,32,367 crore in 1950-51. Since then it rose to Rs. 13,54,599 crore in 2004-05. Thus over the 54 years of economic planning, the trend rate of growth of national income was around 4.40 per cent per annum which is by no means spectacular. However, if this growth rate is judged keeping in view the prolonged period of stagnation that preceded Independence, it is no small achievement. Moreover, during the last 26 years the rate of growth in the national income has registered a significant increase. In this period the NNP rose at the rate of 6.08 per cent per annum as against 3.4 per cent per annum during the first three decades of economic planning.

Considering the national income trends planwise one would notice some interesting facts which remain concealed when only trend rate is used to gauge India's development performance. The First Five Year Plan, which began in 1951, had fixed a modest target of 2.1 per cent per annum increase in net national product. Since this target was very low, its realisation was never in doubt. But no one had expected that an economy which had stagnated under the British rule would record 3.6 per cent per annum increase in its net national product. Bolder targets were set in the Second Plan (1956-61)

14. The Strategist, "Where Have all the Enterprenures Gone?", *Business Standard*, 4 January, 2005.

in respect of national income. It was contemplated that net national product would increase at the rate of 4.6 per cent per annum. However, this target could not be achieved and the rise in net national product was only at the rate of 4.1 per cent per annum. The Third Five Year Plan (1961-66) was a still bigger plan from the point of view of investment and targets. It had contemplated a 5.4 per cent per annum increase in the net national product. Considering the volume of investment, this target did not look beyond achievement when the Plan was actually formulated. But the performance of the economy during the Third Plan period was rather disappointing, and the net national product rose merely at the rate of 2.5 per cent per annum. The next three years were critical years. The economy was in a bad shape, but luckily due to favourable weather conditions in 1966-67 and 1968-69 the net national product recorded a 3.8 per cent per annum increase.

During the Fourth Plan period (1969-74) net national product rose at the rate of 3.3 per cent per annum and the performance of the economy was extremely disappointing. Total growth under the Fourth Plan was realised in the first two years and the last year of the Plan. In the intervening period there was virtually no growth. The Fifth Five Year Plan (1974-79) was a success, as the national income in this period increased at the rate of 5.0 per cent per annum. In the following year, however, the national income recorded a decline of 6.0 per cent. Work on the Sixth Plan had begun in difficult circumstances. However, the economy managed to register 5.4 per cent per annum increase in the net national product. During the Seventh Plan the rate of increase in the net national product was around 5.8 per cent per annum. In 1990-91, the year following the Seventh Plan period, the rate of increase in net national product was 5.4 per cent. In 1991-92 the net national product stagnated at the 1990-91 level. However, there has been a recovery since 1991-92 and the net national product during the Eighth Plan period (1992-97) registered an increase of 6.7 per cent per annum. There was a slow down during the Ninth Plan period and the rate of increase in the national income had come down to 5.5 per cent per annum which is lower than the Plan target of 6.5 per cent per annum. Now NNP estimates for first four years of the Tenth Plan are available. In these four years NNP rose at the rate of 6.5 per cent per annum as against the targeted growth rate of 8 per cent per annum.

Thus the national income in India, during the 54 years of economic planning has not increased steadily. However, the fact remains that the national income has been rising faster since 1980-81 as compared to first three decades of the planning period at a rate which is distinctly higher than the rate of population growth and this has permitted some accumulation of capital and also a little improvement in per capita consumption.

Rise in per capita income. As compared to growth of net national product, a rise in per capita income (per capita net national product at factor cost) is considered to be a better index of growth. It is for this reason that we now turn to the progress of Indian economy in terms of rise in per capita income. In 1950-51 India's per capita income at 1993-94 prices was Rs.3,687.1. Since then in a period of a little more than five decades it rose to Rs. 12,416 in 2004-05. The Planning Commission had hoped that the country's per capita income would be doubled in 20 years' time. This optimism, however, turned out to be without any basis. In a period of twenty years starting from 1950-51, there was only 35.7 per cent increase in per capita income. Even thereafter performance of the economy did not improve much and the rate of increase in per capita income remained only marginally higher than in the first two decades of economic planning. Since 1990-91, however, over a period of fifteen years the rate of increase in per capita income was rather impressive at 4.05 per cent per annum.

Let us now consider growth of per capita income planwise. During the First Plan period, per capita income had risen at a modest rate of 1.8 per cent per annum. Compared with the growth rates in some of the developed capitalist countries and East Asian countries this was not at all impressive. But keeping in view India's colonial legacy, it was not a bad beginning either. The Second Plan was bigger in size and it was hoped that the growth rate would be impressively higher than that in the First Plan period. But the actual performance of the economy was not very encouraging and the per capita income rose at an average rate of 2.0 per cent per annum. As already pointed out, the Third Plan was a failure and during this plan, there was very little increase in per capita income. During the three years of the plan holiday (1966 to 1969) the performance of the economy was as much erratic as it had been in the past. Economic growth under the Fourth Plan was again disappointing. Not only the rise in per capita income was as low as 1.0 per cent per annum, the growth rate itself was very much unstable. In fact, the per capita income had declined in 1971-72 and 1972-73. During the Fifth Plan period, per capita income rose at an average rate of 2.7 per cent. This was unprecedented, yet one cannot accept it as an outcome of the development efforts of the State. Fortunately in 1975-76 and 1977-78, weather conditions were exceptionally good and, as a consequence, there was a spurt in agricultural output. In an agrarian economy like India's, this was bound to be reflected in the overall growth of the economy. In 1979-80 there was a negative growth. In this year the per capita income declined by 8.3 per cent.

During the Sixth Plan period, a recovery was made and the per capita income increased at an average rate of 3.2 per cent per year. This was followed by a 3.6 per cent per annum increase during the Seventh Plan period. This was an encouraging development if we view it in succession of a similar increase in per capita income under the Sixth Plan. However, this growth rate could not be sustained in the years following the Seventh Plan period and became negative in 1991-92. In the two year period, 1990-92, the per capita net national product rose by 0.9 per cent per annum. There was a recovery in 1992-93 as the per capita net national product rose by 3.1 per cent. During the Eighth Plan period (1992-97) per capita net national product rose at the rate of 4.6 per cent per annum. This was followed by an annual increase of 3.6 per cent in per capita net national product during the Ninth Plan period (1997-2002). In the first four years of the Tenth Plan per capita net national product rose at the rate of the 5.5 per cent per annum.

Considering the overall planning period, the inevitable conclusion is that economic growth in India since Independence has been both inadequate and erratic. Nonetheless, **the per capita income does show an uptrend, the importance of which should not be underestimated in view of India's colonial past when the country had suffered a virtual stagnation.**

Structural Changes

Apart from the growth in quantitative terms, there have been significant changes in India's economic structure since Independence. These structural changes indicate that the process of development which began in the early 1950s is still continuing. However, the speed of change is slow and in certain sectors one cannot say with confidence whether change has really occurred. Let us now specifically consider whether importance of agriculture in India's economy has declined over the years and the occupational distribution of the population has improved; and whether basic industries have been developed and infrastructure has grown.

Significant changes in sectoral distribution of domestic product. An important index of development is a steady decline in the importance of agriculture and allied activities in the economy in terms of its contribution to gross domestic product. The importance of agriculture and allied activities in the Indian economy has declined during the five decades of economic planning. In 1950-51 the share of agriculture and allied activities in the gross domestic product was 59.2 per cent at (1993-94 prices). During the first two decades of the planning period no firm trend was observed and the share of agriculture and allied activities in the gross domestic product fluctuated between 59.2 and 45.0 per cent. However, since 1970-71 there has been a steady decline in the share of agriculture and allied activities in the gross domestic product. At 1999-2000 prices, the share of primary sector including agriculture and allied activities in GDP at factor cost was 21.7 per cent in 2005-06.

The output in the secondary sector comprising industries, mining, construction, electricity, etc., accounted for 16.1 per cent of the gross domestic product in 1950-51. As a result of the growth of the industries during the sixties, its relative importance in the economy increased and in 1966-67 the secondary sector accounted for 20.7 per cent of the gross domestic product. Since then, the industrial sector has grown much in relative terms and its percentage contribution to the gross domestic product stood at 24.8 per cent in 2004-05 (at 1993-94 prices). At 1999-2000 prices, the share of secondary sector in GDP at factor cost was 24.1 per cent in 2005-06.

Box 5.2

Development and Structural Changes in India's Economy

Development

• NNP in 1950-51 (Base Year 1993-94)	Rs.1,32,367 crore
• NNP in 2004-05 (Base Year 1993-94)	Rs.13,54,599 crore
• Trend growth rate (rate of increase in NNP) from 1950-51 to 2004-05	4.4% per annum
• Trend growth rate (rate of increase in NNP) from 1980-81 to 2006-07	6.1% per annum
• Per capita income (Base Year 1993-94) 1950-51	Rs.3,687
• Per capita income (Base Year 1993-94) 2004-05	Rs.12,416
• Rate of increase in per capita NNP, 1950-51 to 1990-91	1.7%
• Rate of increase in per capita NNP, 1990-91 to 2005-06	4.1%

Structural Changes

- **Significant changes in sectoral distribution of India's GDP since 1950-51**

(1) Primary sector —	1950-51	55.4 %
	1990-91	34.9 %
	2005-06	21.7 %
(2) Secondary sector —	1950-51	16.1 %
	1990-91	24.5 %
	2005-06	24.1 %
(3) Tertiary sector —	1950-51	28.5 %
	1990-91	40.6 %
	2005-06	54.2 %

- **Slowly changing occupational distribution of work force**

(1) Primary sector —	1951	72.7 %
	1991	67.4 %
	2001	57.3 %
(2) Secondary sector —	1951	10.0 %
	1991	12.1 %
	2001	17.6 %
(3) Tertiary sector —	1951	17.3 %
	1991	20.5 %
	2001	25.4 %

- **Growth of basic and capital goods industries.**
- **Expansion of social overhead capital.**
- **Growth of banking and financial sector.**

The tertiary sector is not a homogeneous category. This includes trade, transport, communications and services. During the five and a half decades of economic planning, the share of this sector in the gross domestic product has increased from 27.5 per cent to in 1950-51 to 52.4 per cent in 2004-05 (at 1993-94 prices). At 1999-2000 prices, the share of the tertiary sector in GDP at factor cost was 54.2 per cent in 2005-06. Thus **there is definitely a significant change in the sectoral distribution of gross domestic product.**

Slowly changing occupational distribution of population. In a developing economy, occupational distribution of population steadily changes in favour of secondary and tertiary sectors. This happens as a result of decline in the importance of agriculture from which transfer of population to other sectors takes place. **In India, where primary sector accounted for 57.3 per cent of the work-force in 2001 as against 69.7 per cent in 1951, the occupational distribution of population has not changed significantly during the planning period, though the economy has recorded a not-too-insignificant growth.** V.K.R.V. Rao goes a step further and asserts that the census data showed a structural retrogression in occupational terms during the period 1950-80.[15]

Let us now examine why in spite of developmental efforts in this country during the period 1951-91, no perceptible change had been witnessed in respect of occupational distribution of the working population. In most of the European countries, industries were established at a time when there was a massive inflow of capital in these countries from colonies. This had enabled them to accelerate the pace of industrialisation which eventually transformed their agrarian economies into industrial economies. The former Soviet Union succeeded in changing the occupational distribution of population through comprehensive planning. Since these courses were not open to India, the government thought of relying on the instrument of democratic planning. The Indian economic planning was not very effective due to its indicative nature and, accordingly, the industrial sector failed to grow at the desired pace. In the absence of fast industrialisation, the growth of the tertiary sector was also sluggish. Thus, neither industries, nor the tertiary sector could absorb surplus population of the rural sector and a more or less stable occupational distribution persisted during the period 1951-1991. From 2001 census data it is clear that there has been rapid decline in the employment of the workforce in the primary sector.

Growth of basic capital goods industries. At the time of Independence, not only India's industrial structure was underdeveloped in a general way, its backwardness was more clearly manifested in the basic capital goods industries. During the British period very few basic industries were established. Consequently, when the country got Independence, the share of basic and capital goods industries in the total industrial production was roughly one-fourth. From employment point of view, the importance of large-scale industries was not much. Out of the total 1.5 crore workers employed in the whole of industrial sector, large-scale industries accounted for just one-fourth of it. Since Independence, pattern of industrialisation has been determined by the policies of the State. **Under the Second Plan, a high priority was accorded to capital goods industries, as their development was considered a pre-requisite to overall growth of the economy. This strategy of development was at the heart of India's economic planning for about two and a half decades period beginning from 1956. Consequently, a large number of basic industries which produce capital equipment and useful raw materials have been set up making the country's industrial structure pretty strong.** Among the large number of industries which have developed during the planning period on a big scale, iron and steel, heavy chemicals, nitrogenous fertilizers, heavy engineering, machine tools, locomotives, heavy electrical equipment, aluminium, and petroleum products are of strategic importance. These industries now account for more than fifty per cent of the industrial production.

Expansion in social overhead capital. Social overhead capital broadly includes transport facilities, irrigation system, energy production units, educational system and health facilities. Their development creates favourable conditions for growth and also for better human living. Therefore, when these facilities expand in some country, it can be assumed that the country is undergoing a change for the better. The transport system in India over the past five and

15. V.K.R.V. Rao, *India's National Income*, 1950-80 (New Delhi, 1983), p. 37.

a half decades has grown both in terms of capacity and modernisation. The railways' route length increased by more than 9 thousand kms and the operation fleet has practically doubled. Further, steam locomotives have been replaced by diesel and electric locomotives improving the efficiency of railways. The Indian road network is now one of the largest in the world as a result of spectacular development of roads under various plans. The total road length comprising national highways, state highways and other roads is 33.2 lakh kms. Progress of shipping and civil aviation has been equally impressive. Though the country is presently facing an energy crisis creating an impression that much development has not taken place in this sector, the fact, however, is that over the past five and a half decades there has been a massive increase in installed electricity generating capacity in the country. In 2005-06 the installed electricity generating capacity was 1,43,800 M.W. against 2,300 M.W. in 1951 and 33,300 M.W. in 1981. Similarly, irrigation facilities in the country have increased raising gross irrigated area from 2.32 crore hectares in 1950-51 to 7.26 crore hectares in 2002-2003.

Since Independence, education has not expanded at a desired rate, with the result that even now about 35 per cent of the people in this country are illiterate. This is surely a sign of backwardness. However, over the planning period the number of educational institutions has more than doubled and the number of teachers and students has gone up by about four times. As a result of increased educational facilities the literacy rate has risen from 18.33 per cent in 1951 to 43.57 per cent in 1981 and to 65.4 per cent in 2001. These gains in educational field notwithstanding, a major snag in the government's educational policy is that it has retained the basic framework of Macaulay's policy which was meant to serve British colonial interests. But, of late, some attempts have been made to make education more relevant to life by developing proper linkages between education, employment and development.

The medical facilities have also increased, though their benefit has not been uniformly available to all the sections of the population. The number of hospital beds has increased by more than eight times. The bed population ratio is now 0.93 bed per 1,000 population as against 0.33 at the commencement of the First Five Year Plan. Since 1951 the number of doctors increased from 61,800 to 8,56,111 and of nurses from 18,504 to 8,65,135. Considering the vastness of the health problem these achievements are meagre, but they surely indicate that some development has taken place in this sector over the years.

Progress in the banking and financial sector. Since Independence significant progressive changes have taken place in the banking and financial structure of India. In this period organisation of money and capital markets has improved, specialised industrial financing institutions have been set up, banking services have increased and modern banks have reached small towns and villages. The growth of commercial banks and cooperative credit societies has been really spectacular and as a result of it the importance of indigenous bankers and moneylenders has declined. During the British period, the whole banking development had taken place in the private sector. Even the Reserve Bank of India was a shareholders' bank. The process of nationalisation was initiated after Independence. First the Reserve Bank was nationalised in 1949. Thereafter in 1955 the Imperial Bank of India, a leading commercial bank of the time, was nationalised and converted into the State Bank of India. Since commercial banks were reluctant to open branches in the countryside, the State Bank of India was assigned the task of opening a large number of branches in small towns and villages. In 1969, fourteen big commercial banks were nationalised. This act of the government undermined the control of big capitalists on the finance capital. Since nationalisation, for about two decades these banks radically changed their credit policy. They made more funds available to priority sectors such as agriculture, small-scale industries, transportation, etc. However, with the introduction of neoliberal economic reforms the policy of directed credit has been abandoned and the credit flow to priority sectors has declined.

To sum up, the Indian economy, though economically still backward, is no longer caught in a 'low level equilibrium trap' where it remained for a long period under the British. **Since Independence, it has recorded a not too insignificant increase in the national income and**

per capita income, though one cannot be equally sure of the trickle down effects of growth. We further notice that the Indian economy during the past five and a half decades has progressed structurally when we consider the growth of capital goods industries, expansion of the infrastructure, performance of the public sector, changes in the financial organisation and the progressive transformation of the agrarian scene. These factors over the years are believed to have created an element of dynamism in the country's economy and one can now hopefully say that it would sustain development in the future.

INDIA — A MIXED ECONOMY

The Indian economy is a mixed economy. It has acquired this form with the growth of a large public sector since Independence. Bhabatosh Datta however asserts, "In examining the Mixed Economy thus introduced, one has to remember that no economy has ever been completely unmixed. Even before Independence, India had a fairly important public sector, the most important component of which was the railway system. There may be various grades of mixture between the impracticable extremes of one hundred per cent laissez-faire and one hundred per cent socialist production."[16] In India, the Second Five Year Plan summed up the objectives of the planned development in the phrase 'socialist pattern of society', implying that "the basic criterion for determining lines of advance must not be private profit, but social gain..."[17] and yet the character of the economy that has emerged as a result of planned development does not resemble even remotely socialism.

Nationalisation of banks, setting up a number of enterprises in the public sector and such other measures may create an illusion that the economy has advanced towards socialism but in fact socio-economic relations have not undergone any such change as to warrant the conclusion that the Indian economy has drifted away from its capitalist form. According to Sukhamoy Chakravarty, "...as of now, there is no evidence that despite the growth of a large public sector, India has moved to any significant extent closer to a 'socialist society', in any meaningful sense of the term. If the present trends are not going to be reversed, it is possible that India will witness in the closing decade of this century a considerably enlarged private sector with further erosion of the role of planning in the traditional sense of the term."[18] Eighteen years have passed since Sukhamoy Chakravarty made these observations. In these years commitment to build a socialist economy has been completely abandoned. Even the policy measures adopted by the government have significantly undermined the role of economic planning. **We in India now have a mixed economy with a dominant private sector.**

Private ownership of the means of production and profit-induced commodity production. Under Indian constitution private ownership of means of production has been allowed. Moreover, the capitalist class controls the State power whereby it influences the policies of the government. These factors adequately explain why the private sector in this country remains pervasive. (The share of the public sector in the total national output is less than 25 per cent). At present a big segment of the industrial sector is in private hands. As a matter of fact, with the exception of some basic industries, all other industries, including cotton textiles, jute, sugar, cement, vegetable oil, leather, information technology etc., are in the private sector. Lately with the adoption of neoliberal economic policy the government is hastily withdrawing from industrial sector so much so that even the profit making industrial enterprises are being handed over to

16. Bhabatosh Datta, "Fields Must be Defined", *Capital*, Annual 1983 (Special Issue on Public Sector), p. 27.
17. Government of India, Planning Commission, *The Second Five Year Plan* (Delhi, 1956), p. 22.
18. S. Chakravarty, "Policy Making in Mixed Economy — The Indian Case" in P.R. Brahmananda and V.R. Panchamukhi (eds.), *The Development Process of the Indian Economy* (Bombay, 1987), p.733.

private companies at prices which are far below their asset values. Though railways are still State owned, road transport is mostly in private hands. Agriculture, the principal economic activity in the country, is in the private sector as the ownership of agricultural land is entirely personal. These facts pointedly suggest that the production in such an economy will be done for the market and the activity of the producers will be motivated primarily by profit. In agriculture, no doubt, small farmers do not have marketable surplus and, therefore, their behaviour as producers is generally not responsive to market changes.

Decisive role of the market mechanism. Market mechanism has a predominant position in the Indian economy. At present this country has markets not only for various products, but also for productive factors, such as labour and capital. In terms of organisation all the commodity and factor markets may not be equally integrated but there is no denying the fact that prices of most of the commodities and factors of production are determined by the interplay of demand and supply forces. Prices of various commodities and timely changes therein, along with future price expectations, influence the decisions of the producers. Factor prices, to a great extent, also determine the techniques of production. Money market in the country is also now better organised comprising diversified financial institutions. Though all major commercial banks still remain nationalised, their working as well as their business dealings with producers in the private sector are generally determined according to the laws of the market. Further, the amount of investment and its form is greatly influenced by the interest rates that prevail in the money market. In the stock market too, fluctuations in the share prices not only reflect the prospects of different companies, but they also determine whether particular companies can obtain equity capital for their expansion or not.

However, the market mechanism in India has not been completely free from State control. In 1951, Industries (Development and Regulation) Act was passed to provide a regulatory system for industrial activity in the country. The State wanted to evolve a licensing system under the provisions of the Act, as an effective instrument of industrial planning. In practice, this objective could not be realised. Jagdish Bhagwati and Padma Desai have extensively analysed the working of the licensing system of India and have noted that the Licensing Committee did not follow any fixed criteria or principle for granting licenses either for establishing new industrial units or for expanding the capacities for existing units.[19] Apart from the licensing system, the government also introduced certain other controls and incentive measures for influencing the decisions that were arrived at in the markets. These controls and incentive measures, however, did not alter the basic character of market mechanism. Their importance lay only in their capacity to rectify irrationality of certain market decisions by changing them for the better. G.Thimmaiah is, however, of the view that the licence and control system in this country failed in this direction. Contrary to the expectations of the Indian planners, the private sector could not be made ineffective in its exploitative motive under the licence and control system.[20] **Under the structural reforms which have been carried out in this country since 1991-92 various physical controls have been withdrawn. Thus the market now operates far more freely than in the past.**

Public sector. Presence of a large public sector in India along with free enterprise makes the character of the economy as mixed. The public sector in India has not been developed for any ideological reasons. Its creation was a historical necessity. At the time of Independence the private enterprise had neither the resources nor the will to undertake the task of industrial developmen on a massive scale. Furthermore, country's transport system, energy sources and certain othe components of the infrastructure were undeveloped. To be brief, though the economy emergin from its colonial past needed a 'big push', the conditions prevailing in the country were hardl conducive to development in general and industrialisation in particular. At this juncture an effectiv intervention of the State in the economy was an imperative condition to break the low leve

19. J.N. Bhagwati and P. Desai, *India: Planning for Industrialisation* (London, 1970), p. 254.
20. G. Thimmaiah, *India's Development Experience* (New Delhi, 1985), p.13.

equilibrium trap in which the economy was caught during the British period. The government recognising this need of the time decided to take upon itself the responsibility of developing strategic sectors so as to create conditions for the development of private economic activity. Hence during the earlier four decades of economic planning around 40 per cent investments were made in the State sector. This policy is sometimes wrongly construed as a step towards socialism. In fact, in a predominantly free enterprise economy, creation of a State sector (however large it may be) will not alter the basic character of the economy and India is no exception to this rule.

In India's essentially capitalistic economy, creation of a large public sector is, by no means, a novel experiment. In a number of Western capitalist countries, the State has not only intervened in their economies in a big way but has also engaged itself in various productive and distributive functions. The developmental role of the State has been more direct and pronounced particularly in those countries where industrialisation was somewhat delayed. Therefore, **the presence of the public sector in some country or an active role played by the State in promoting the development of the economy provides no guarantee that the character of the economy would not be capitalistic. At best these factors would make it a mixed economy which, in essence, is a variant of capitalism.**

Economic planning. Another factor in the Indian economy that often creates confusion about its character is economic planning. Economic planning has been an integral part of the Indian economy for the past five and a half decades. Because planning was first adopted in the erstwhile Soviet Union and thereafter other socialist countries also followed the path of planned economic development, planning got so much identified with socialism that many people now mistakenly characterise all planned economies (irrespective of the form of planning) as the socialist economies. No doubt economic planning is an essential ingredient of a socialist economy, but all planned economies are not necessarily socialist economies. A country can adopt planning while retaining its capitalistic structure, but in its form and range planning in a capitalist economy would be different from the one in a socialist economy.

In India, economic planning has been introduced in a basically capitalistic economic framework. It has nothing to do with socialism or an egalitarian order of society. Further, not only planning in this country is limited in its range, it also very much lacks the element of compulsion. In socialist countries every possible attempt is made to implement the plans and great seriousness is attached to the realisation of targets laid down in it. There are no such compulsions in the Indian planning. The Indian plans lay down targets even for sectors over which the State has little control. For example, the whole of agriculture is in the private sector and the government attempts to realise the targets laid down for this sector by providing certain incentives, which may not always work. Even for the sectors over which the government may have effective control, the measures adopted by the administration may not always be in conformity with those stated in the plans. This is quite natural in the Indian economic planning which is indicative in its form. Commenting upon the character of the Indian plans, Charles Bettelheim has aptly remarked, "The main characteristic is that they state what is anticipated or expected. They are entirely different from socialist plans, which lay down imperative and compulsory conditions. The latter sort of plan, once adopted, has to be implemented by administrations and enterprises, whereas the Indian plans attempt to define as precisely as possible the government's agricultural, economic and industrial policies for the following five years. The government and its administration naturally want to fulfil as much of the plan as possible, but they may adopt measures very different to those suggested by the original Plan without violating any legal obligations."[21]

The economic planning as practised in India over the past five and a half decades and the development of the public sector in this period were thus meant to move a standstill economy, their purpose was not to change the basic character of the country's

21. Charles Bettelheim, *India Independent* (London, 1968), p.147.