The Indian Development Experience In The Second Half Of The 20th Century

The Indian Experience of Economic Development is an interesting read for any UPSC candidate. This topic is multi-layered with many factors in play.

In this article we will give in a nutshell about the he Indian development experience in the second half of the 20th Century within the context of the IAS Exam

Overview of Economic Development in India

The post Independence development experience of India has always excited much interest, not least because, while India is one of the poorest countries in the world in terms of per capita income, it is also the world's largest liberal democracy. Furthermore, it has managed to retain this political system, however inadequate and flawed, while many democratic experiments in other countries have foundered and occasionally collapsed.

This raises the obvious question: to what extent has this influenced the nature of social policy in India? Have the pressures on the state that result from democratic functioning meant greater attention to particular types of social policy, and which social groups or classes have they benefited? Why has democracy itself not resulted in greater attention to the provision of basic goods and minimally acceptable levels of public services for all citizens? These issues are further complicated by the fact that India has not only a system of liberal democracy but also a federal polity, in which a substantial number of the concerns which are particularly important from the perspective of social policy (land reforms, education, health, rural infrastructure) are either specifically "state government subjects" or are concurrently under both state and central governments.

This in turn means that the different political groupings in different state governments can have significant implications for both social policy and its effects. This partly explains why there is so much regional variation in terms of major demographic, economic and social variables across states. There is a further dynamic as well, in that certain types of social policy, as discussed above, have ripple and process effects which affect the various classes in society directly, but also determine their desire and appetite for further public intervention. This point is elaborated below, when the specific experience of some states is considered.

Features of India's Growth Strategy

There were a number of features of India's post-Independence growth strategy that structurally limited the potential of the economic system to expand in a sustainable manner. Many of these features, which stemmed from the political economy of class configurations at the time, contributed in turn to the specific manner in which the development process unfolded and to the limitations of social policy in accelerating the process of development. The most significant such feature was the inability of the Indian state in general to address the most basic form of inequality in the country, that over the ownership and control over land. Despite the overt declarations regarding the need for land reforms and for curbing the concentration of economic power, relatively little was done to attack or redress asset and income inequality.

Similarly, while some monopolistic practices were curbed, private asset concentration in the industrial sector was never really challenged. In fact, state intervention became yet another mechanism for existing monopolists to consolidate their positions. One consequence of the associated persistence of asset and income inequality was that there were definite limits to the expansion of the market for mass consumption goods in the country. This in turn meant that employment and income growth in the private sector was limited. The absence of any radical land redistribution meant that the domestic market, especially for manufactured goods, remained socially narrowly based. It also meant that the growth of agricultural output, though far greater than in the colonial period, remained well below potential.

Under these circumstances, continuous growth in state spending became essential for the growth of the market since it was the key element in whatever overall dynamics the system displayed. Further, given the strength and assertiveness of the domestic industrial capitalists, the government was not in a position to discipline them to the extent required to launch a mercantilist strategy that sought to use cheap labour resources as the base for a thrust into the international market for manufactured mass consumption goods.

For the first two decades after Independence, this strategy did pay dividends in terms of economic growth. Rates of industrial growth were creditable by international standards, the country built up a diversified industrial base, and the public sector expanded rapidly. As a consequence, public economic activity was able to continue to provide crucial infrastructure services, industrial raw materials and capital goods to sustain industrial growth even when the foreign exchange available to import these commodities was limited. However, because this strategy did not involve a widening of the mass market in any significant way, it proved to be unsustainable beyond a point. By the mid-1960s, the once-for-all stimulus offered by import substitution was exhausted.

Indian Economic Development in the late 20th Century

However, by the turn of the century it was already evident that the limits to this type of expansion had also been exhausted, and the growth process decelerated once again. The economies of South Asia – and especially India – are often portrayed in comparative discussion as among the "success stories" of the developing world in the period since the early 1990s. The sense that the Indian economy performed relatively well during this period may simply reflect the much more depressing or chaotic experiences in the rest of the developing world, with the spectacular financial crises in several of the most important and hitherto dynamic late industrializers in East Asia and Latin America, and the continuing stagnation or even decline in much of the rest of the South.

Compared to this, the Indian economy was largely stable and was also spared the type of extreme crisis that became almost a typical feature of emerging markets elsewhere. But the picture of improved performance is a misleading one at many levels, since in fact the Indian economy experienced economic growth that was actually less impressive than what was achieved in the preceding decade. Further, the growth process was characterised by low employment generation, greater income inequality and the persistence of poverty. In other words, despite some very apparent successes in certain sectors or pockets, on the whole the process of global economic integration did little to cause a dramatic improvement in the material conditions of most of the population, and added to the greater vulnerability and insecurity of the economies in the region.

Thus, the rate of growth of aggregate GDP of India in constant prices was between 5.5 per cent and 5.8 per cent in each five-year period since 1980, and the process of accelerated liberalisation of trade and capital markets did not lead to any change from this overall pattern. Further, while investment ratios increased slightly (as share of GDP) this reflected the long-term secular trend, and in fact the rate of increase decelerated compared to earlier periods. More significantly, the period since 1990 was marked by very low rates of employment generation. Rural employment in the period 1993-94 to 1999-2000 grew at the very low annual rate of less than 0.6 per cent per annum, lower than any previous period in post-Independence history, and well below (only one-third) the rate of growth of rural population.

Meanwhile, declining capital expenditure by the government has been associated with more infrastructure bottlenecks and worsening provision of basic public services. The major positive feature which is frequently cited, that of the overall stability of the growth process compared to the boom-and-bust cycles in other emerging markets, reflects the relatively limited extent of capital account liberalisation over much of the period, and the fact that the Indian economy was never really chosen as a favourite of international financial markets over this period. In other words, because it did not receive large inflows of speculative capital, it did not suffer from large outflows either. Meanwhile, stability to the balance of payments was imparted by the substantial inflows of workers' remittances from temporary migrant workers in the Gulf and other regions.

The less than satisfactory performance during the decade of economic liberalisation was not just the result of the nature of integration with the global economy. It also reflected the continuing contradictions in Indian political economy that have been so crucial in inhibiting economic growth and reducing the wider spread of its benefits across all the citizenry, over most of the second half of the 20th century.