

PRAMIT CHAUDHURI

**THE
INDIAN
ECONOMY**

**POVERTY
AND
DEVELOPMENT**

The Indian Economy

Poverty and Development

Pramit Chaudhuri

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The Indian Economy
Poverty and Development

Die Sattgefressenen
sprechen zu den Hungernden
Von den grossen Zeiten
die kommen werden

*Those who have eaten their fill
speak to the hungry of the wonderful
times to come*

Bertolt Brecht
Die das Fleisch Wegnehmen vom Tisch
Svendborger Gedichte, Brecht Gedichte IV
Suhrkamp Verlag, 1961

Preface

This book is intended primarily as an introduction to the problems of economic development in India. The information that is available to us is so vast that any reasonably detailed summary of it would have resulted in a book many hundred pages long. On balance, I have decided against writing such a book, choosing instead to present briefly such parts of the information as appear to me to be of the most critical importance. The student can read this book fairly quickly—although I am afraid that it has to be read with some care, because its arguments are sometimes rather involved—to obtain his general bearings. He can then pass on to the more specialized material that is documented in the bibliographical references. Attempts to tell the story of Indian development within the compass of a few pages raise problems of their own. One has to decide what to leave out and how the material that is included fits together. More important, one has to decide whether the developments are to be studied from the point of view of the experience of the economy as a whole or in the light of how those developments affect a particular part of society, such as the poor. The account that is presented is, therefore, a very personal view of Indian economic development in many ways. That personal point of view, I am fairly confident, can be defended both in terms of its analytical and empirical underpinnings. I have no pretensions to have offered any final resolutions of the many complicated problems that face us in the interpretation of recent economic phenomena in India. This book is no more than an exploratory essay, designed to raise certain questions in the reader's mind.

A few words need to be said about the contents of the book. It

attempts to explain the past and not to predict the future. It has nothing to say, therefore, on such issues as the 'oil crisis', which cannot be seen as in any way a logical development of past forces operating within the economy and whose future impact is uncertain. The book also lays relatively less emphasis on external factors, such as problems of export policy or foreign aid. While I agree that such issues are not unimportant, I firmly believe that the basic explanation of the course of economic events in India in recent years has to be formulated in terms of forces and relationships that are internal to the economy. As this is a book written by an economist about economic development, it does require a certain amount of knowledge of economics to follow its arguments. One would not need a very extensive knowledge of economics to read this book (especially if one is charitable enough to give the author the benefit of the doubt at times) but one would need to know that little amount rather well. However, I have tried fairly hard to explain things in as simple terms as possible, without access to too many technical terms. It might help the reader to be told at this stage that what I have tried to present in this book is a 'structuralist' view of Indian economic development, in the sense that economists use that term.

The suggestion that I should attempt to write an introductory textbook on India came originally from Professor Michael Lipton. While the end product has turned out to be very different from what either of us then had in mind, I remain grateful to him for the initiative, and also for reading the manuscript with care and sympathy. It was also read by Dr Ashok Mitra, Dr Deepak Nayyar and by Rohini Nayyar. They have been the most understanding and constructive of critics. Parts of the manuscript were also read by Professor Amiya Bagchi and Robert Cassen. I remain grateful to them all. None of them is responsible for the views that are expressed in this book and the errors that it might contain. I should here also thank the publisher's reader, who read the book with much care and a degree of understanding of my point of view which was greater than I could have expected. If the basic thesis of the book has emerged with any degree of clarity at the end, much of the credit for that is his. My publishers are to be thanked for putting up patiently with many delays.

The first draft of the manuscript was typed by Anne Harland, Margaret Heywood and Phil Markwick; later amendments by Jan

Birbeck and Pat Cobbett. My thanks to them for their patience and promptness. I am also grateful to Sue Rowland for drawing the charts and to Jean Chaudhuri for help with some of the tables. It is a great pleasure to acknowledge my debt to the staff of the library of the Institute of Development Studies for their continuous help, over a long period of time, always given cheerfully and efficiently. Not only have they always provided what I asked for but have often gone out of their way to draw my attention to publications that I did not know existed.

The material relating to foreign aid used in this book arises out of a study that was financed by the Social Science Research Council. I should also thank the University of Sussex for a term's leave of absence to enable me to work on the book.

I am grateful to the following for permission to quote extracts from published material:

- (i) The International Economic Association and Dr Ashok Mitra for material used in Table 5;
- (ii) The Editor, International Monetary Fund Staff Papers, for material used in Table 27;
- (iii) The Editor, *Sankhya (Indian Journal of Statistics)*, for material used in Table 40.

The detailed textual references are given in the footnotes and the bibliographical references.

I am grateful to the Suhrkamp Verlag, Frankfurt am-Main, for permission to quote the extract from Bertolt Brecht—*Svendborger Gedichte, Brecht Gedichte*, Band IV.

Readers should note that Madras and Tamil Nadu are the same, as are Mysore and Karnataka. Data relating to the Census of Agriculture 1970 and the 1971-72 land holding survey became available after the book was completed.

This writing of any book causes a certain amount of domestic upheaval. My family rode out the occasional pockets of turbulence with admirable fortitude.

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PART 1

CHAPTER ONE

Assessment of Economic Performance

Over the last 25 years, the Indian economy has made only limited progress towards self-sustained economic growth. After 25 years of effort, a substantial number of Indians, which can be counted in millions, remain desperately poor and can look forward to more abject poverty. These two congruent statements, addressed to the same body of facts, ought to lead us to similar conclusions regarding the nature of the problems that India faces and to the policies she should pursue. However, the way a problem is formulated influences the way in which we approach, select and analyse the evidence. Quite often, it shapes the answer that emerges. Very seldom is this more true than in the context of the complex, contradictory and vast body of facts that faces an economist who attempts to describe and interpret the performance of the Indian economy over the last quarter of a century.

The performance of an economy can be looked at from a number of alternative points of view. Economic historians might study the behaviour of the Indian economy today, with reference to her recent past, wisely disbelieving in revolutions that have not yet happened. On that basis, economists of very different dispositions agree that the Indian economy has performed rather well after independence.¹ Although a knowledge of the economic and social structure that India inherited at the time of independence is essential to an understanding of more recent experience, I have not here attempted such a historical approach.² Another

¹Compare, for example, the articles by Bagchi (1970), Raj (1965) and Weisskopf (1972).

²Good introductions to the historical performance of the economy are

popular viewpoint is that of the inter-country comparisons, whereby rise in output or employment in the Indian economy are compared to China, rates of fertilizer consumption to Taiwan and the impact of aid to a group of other countries. It is unquestionable that such comparative studies can sometimes yield illuminating insights into the problems of economic development facing India and that some valuable work has been done in this area.³ I believe, however, that the problems raised by inter-country comparisons are seriously underestimated in much of the published literature, especially if operationally usable conclusions are to be based on them.⁴ I have, therefore, kept a somewhat myopic vision fixed firmly on India hoping that I do not present a very distorted view of the reality.

The yardstick that I have adopted for assessing economic performance, at least as a starting point, is the avowed objectives of the system, as formulated and declaimed by the policy makers.⁵ These are laid down in the various plan documents, together with other policy prescriptions, from the ambiguous legal language of the industrial policy resolutions of 1948 and 1956 to the unambiguous language of the political market-place, *Garibi Hatao*.⁶ This can only be a starting point, a vague and unsatisfactory pointer on a map. It is almost a logical impossibility to state what objectives such an entity as 'the economy,' through its policy makers, pursues. Moreover, not all real objectives need be explicitly stated and not all that is avowed, is or is meant to

provided by Buchanan (1934) and Macpherson (1972); on the controversy over standards of living in the nineteenth century, see Morris *et al.* (1969); on the behaviour of agricultural production, see Blyn (1966); on industrial development in the twentieth century, see the definitive work by Bagchi (1972).

³See, for example, the two interesting papers by Raj (1967) and Weisskopf (1975).

⁴Some of the major problems are caused by differences in size and the structural characteristics of the economy, including the degree of 'openness' of the economy. The Chinese experience is probably the one case that is most directly comparable to India on these grounds. However, the usefulness of that comparison is vitiated by the fact that China has a completely different social and economic system.

⁵For a more detailed discussion of alternative assessment criteria in the Indian context, see Chaudhuri (1971).

⁶India, Planning Commission (1952) Ch. II, (1956) Ch. II, (1961) Ch. IV and (1969) Ch. 1.

be implemented. Words, by themselves, do not affect the allocation of either resources or rewards. However, rough and unsatisfactory though it is, I believe that the major objectives that the Government of India followed during our period can be identified sufficiently clearly for us to make a start at assessing the performance of the economy.

I shall discuss later on in the book to what extent various objectives laid down in policy statements were attained during 1950-1974. Here, I am solely concerned with establishing the general analytical framework within which I have chosen to set out the basic facts of economic life in India during that period. From that point of view the various plan objectives can be grouped into three: those which are desirable from the point of view of the economy as a whole, those which are of especial benefit to certain sections of the economy and those which are designed to alter in some way the structure of the economy.⁷ Though the emphasis laid on the various objectives may have shifted from time to time, there is a remarkable consistency in the ends the economy set itself throughout this period.⁸ However, the attitude of the Government to the choice of instruments that were to achieve these ends did undergo certain changes over the years.⁹

Under the first group of objectives relating to the whole of the economy is the basic one of increasing the level of national income. This is expressed both in aggregative terms and in terms of the level of income *per capita*, thus relating it to an implicit or explicit objective as to the desirable rate of growth of population over a period of time, as well as to such general concepts as the standard of living of the populace. The national income target is set both in terms of desirable rates of growth and of a target period by which the objective is to be attained. As we shall see, this target has turned out in practice to be a receding one. There

⁷This classification is admittedly a rough and ready one adopted for purposes of exposition. In practice, a particular objective may have more than one of these attributes.

⁸The reader may compare the various references cited in n.6 above.

⁹The sharpest change is probably shown by the Approach document to the fifth five-year plan, India, Planning Commission (1973), Ch. I, where the elimination of poverty is stressed more strongly than, say, in the second or third five-year plans; see also Chapter 9 below.

is a clear realization that the need to maintain the continuity of growth is as important as the achievement of any such target. This objective is usually embodied in the concept of 'self-sustaining' growth and sometimes more concretely in terms of a terminal capital requirement. Added to the national income target is the overall employment target, enshrined like so many idols in this iconoclastic age in the Directive Principles to the Constitution as the right to work.¹⁰ In the practical world of planners, this is seen less as a question of providing full employment, although that is obviously a *good thing*, as that of providing a given and sufficient number of jobs within a particular plan period, so as to make it possible to absorb a proportion of the backlog of unemployment and the increase in the labour force in that period. The approach to the problem of unemployment has changed considerably in recent years.

There is much discussion in the plan documents of the importance of resource mobilization in the process of development. In one sense, resource mobilization is a mean, because the attainment of growth depends on such mobilization. A shortfall on the resources front might result in the failure to attain the growth targets. In another sense, in a mixed economy inadequate resource mobilization manifests itself in internal and external instability. A relative stability in the price level and a viable balance of payments are both seen as basic objectives of the plans.¹¹

The second set of objectives, those that are related to certain sections or groups within the economy, is headed by the distributional objective. There is recognition that the present degree of inequality in incomes is unacceptable and should be reduced. This is to be brought about not so much by a redistribution of existing incomes as by channelling increasingly to the low income groups the incremental benefits of growth. Although the need to do something for 'the poor' has always figured prominently in the plans, in later years and especially in the fifth plan attention has focused mainly on increasing the standard of living of the

¹⁰Tarlok Singh (1974), Ch. III.

¹¹One should distinguish here between physical and financial resources. An economy acquires physical resources of certain kinds that it cannot adequately produce at home through imports. However, additional financial resources to domestic savings are only made available by the net import surplus.

very poor part of the population.¹²

Just as the population can be divided into rich and poor and special attention directed to the latter, so the country can be divided geographically into rich and poor states and regions. Not all parts of India were equally developed in 1950, however we chose to measure it, and the regional inequalities persist, some will say are even growing, in the 1970s. Reducing regional inequalities is also an objective of the planners.

From the first plan onwards, the documents recognize the importance of the agricultural sector to the growth of the economy.¹³ It is important both as a sector from which the bulk of the population derives its livelihood and as a source of food and raw materials for the rest of the economy. The relationship between agriculture and industry is seen as one of complementarity. Industrial development comes in for attention, both as a supplier of essential non-agricultural goods and in the longer run as an alternative source of jobs to the growing agricultural population.¹⁴

A word needs to be said here about the role of the external sector as perceived by the planners. The planners see the issue of self-reliance primarily as one where the economy will not be reliant on a large and continuing net inflow of foreign resources.¹⁵ As such, the objective is one of maintaining external balance and not one of self-reliance in an autarchic sense. Some would dispute this interpretation and I discuss the question briefly later in Chapter 9.¹⁶

¹²India, Planning Commission (1973), pp. 1-3.

¹³All the plan documents from the first plan onwards have stressed the importance of the agricultural sector to the growth of the economy and the wellbeing of its population. However, statements contained in plan documents are not always a reliable guide to the policy that is followed. The Government's policy towards the agricultural sector is discussed in Chapters 5 and 9 below.

¹⁴Strictly speaking, the rural population rather than the agricultural population, because not all people living in the rural sector derive their living from agriculture.

¹⁵An exception is Professor Mahalanobis's writings, where he stresses the need to build up India's supply of scientific and technical manpower. Mahalanobis (1963).

¹⁶See below p. 217f; not everyone would agree with this interpretation of the trade policy followed by in the Government of India. Among the aid administrators in donor countries there is a strong feeling that the Government's policy is *de facto* autarchic.

However, we need to make one distinction at this stage. The need to build up industrial capacity during the process of development is put very much in terms of the inability of the economy to meet its total requirements of certain categories of goods through imports rather than of seeking independence for some strategic reason. It is important to note in this context that there is very little discussion at this level on the development of indigenous sources of technology.

Coming to the last set of objectives, those that relate to the structure of the economy, it is useful to distinguish between the agricultural and the non-agricultural sectors. Within the first, the problem is seen very much in terms of redistribution of land ownership, the so-called 'land to the tiller' programme, and in the reformulation of the rights and terms of tenancy. That is to say, within the agricultural sector the problem is recognized to be one about the ownership and control over the use of existing resources, requiring at one end actual redistribution of the existing stock of wealth. In the non-agricultural context, the problem is that of the concentration of economic power, of big business or the *growth* of monopoly, and the remedy is to control the further expansion of what are called large industrial houses. In addition, there is an implicit concept of countervailing power in the policy to build up a large public sector industrial complex, that will make the economy less dependent for certain critically important inputs such as steel and machinery on the private sector. Put like this, the enemy appears to be within the gate; the national bourgeoisie rather than the international, on whose access to knowhow both the public and the private sector might have to depend.¹⁷

Put this way, the list of objectives appears to be unexceptionable, and comprehensive. However, a closer look reveals much to be dissatisfied about. To put it briefly at this stage, there are three major shortcomings of this set of objectives.¹⁸ First, very few of the objectives are quantified or have a time-horizon attached to them, with the exception of national income targets. Secondly, there is no discussion of the feasibility or consistency of the set of objectives that has been chosen. This would hardly have been possible without a clear quantification of the objectives. Thirdly,

¹⁷This issue is further discussed in Chapter 6 below.

¹⁸For further discussion of the planning strategy, see Chapter 9 below.