
INDIAN ECONOMY

Problems of
Development and
Planning

A N Agrawal

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A.N. AGRAWAL



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INDIAN ECONOMY
Problems of Development and Planning

By the same author

Indian Agriculture: Problems, Progress and Prospects

***Economic Planning: Principles, Techniques and Practice* (co-author)**

Bhartiya Arthavyavastha

Bharat ka Arthik Vikas evam Ayojan

PREFACE TO THE ELEVENTH EDITION

In its eleventh edition the book has been thoroughly revised and updated. Many chapters have been recast to take account of the latest developments. Important ongoing events have been documented, analysed and critically appraised. These include: growth-rates; poverty-alleviation programmes; paradoxes of high investments and low outputs, and of high savings and low incomes; difficult balance of payments situation; faltering on resource mobilisation; grim unemployment situation; rapid urbanisation; continuing price-rise; recommendations and impact of the Eighth Finance Commission; progress under the Sixth Plan; the approach and problems of the Seventh Plan, etc. For all these discussions the most recent available material and data have been used.

The entire subject has been dealt with in the context of the theory of development and underdevelopment discussed in the first three chapters which bear upon the factors of growth, the role of capital, technology and state, as also on the strategies of growth. This is followed by an assessment of the economy's capacity in terms of its natural resources, population, infrastructure and capital stock. After elaborating upon the various facets of national income, many sectoral developments in the spheres of agriculture, industry, foreign trade, money and banking and government finance have been explained and examined. This has been rounded up into final chapters on plans and planning problems.

The book will prove useful to the students of undergraduate and postgraduate classes of various universities as well as to the candidates who are preparing for competitive examinations.

A.N. AGRAWAL

PREFACE TO THE FIRST EDITION

The Indian economy is passing through a critical phase. Despite the vast build-up of technical and institutional infrastructure, establishment of metal and machine industries and injection of modern technology into a traditional agriculture, the country has paradoxically experienced severe shortages in the face of large unutilised capacity, just as it has seen rates of inflationary price rise unparalleled in India's history. The declaration of national emergency has brought quiet to the turbulent India of the present generation, besides ushering in far-reaching changes. These current developments require a fresh look. The facts and the changes of the past need to be reinterpreted. It is to these challenging tasks of analysing the present phase of the country's economy that the author has addressed himself.

The material used is as recent as the date of publication of the book. It includes the latest facts and figures, besides incorporating each material as the annual plan (1975-76) released in July 1975, along with the policies announced and measures adopted by the government after the declaration of emergency. The ongoing events have been placed in proper perspective to give an integrated view of the economy.

The book is primarily meant for students preparing for degree courses in Indian universities, but will also be useful for various competitive examinations. The coverage and the treatment of the subject have been attempted with an eye on their needs. Reading material has been so organised as to facilitate the problem-oriented discussion of the topics covered. Besides, the matter has been put across in a simple and readable form to enable even a general reader to benefit from the book.

The topics dealt with are many and varied. Beginning with the perspective of possibilities on the horizon, there are at one end chapters dealing with the assessment of and lessons drawn from the past, and at the other end subjects such as the evaluation of the progress of the economy have been dealt with. In between there are discussions on such components of the Indian economy as natural and human resources, national income, agriculture, industry, foreign trade, planning and planned growth.

My thanks are due to Mr Kundan Lal, senior lecturer in Economics at Bhagat Singh College, University of Delhi, for his valuable contributions in the writing of the book.

A.N. AGRAWAL

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Chapter 1

UNDERDEVELOPMENT: MEANING, FEATURES AND CAUSES

Indian economy has undergone vast and varied changes. And it continues to change. The massive process of movement has consequences of enormous magnitude for the present generation as also for the future. To analyse these goings on, it is useful first to acquaint ourselves with the key elements and problems that mark the transition of a developing economy from a low level to a higher developed stage. This we do in the three chapters. This chapter deals with the concept of underdevelopment, and spotlights its features and causes. This sets the backdrop for the next two chapters which enlarge upon the theme of development to highlight the factors, the strategies and the policies that promote economic progress.

DEFINITION AND DEVELOPMENT

Underdevelopment can best be represented in terms of such of its facets as bring out its backward-looking reality. This will also throw light on what constitutes development in this context and will provide material for formulating indicators and objectives of development.

Incomes, Resources and Process

The concept of underdevelopment is derived from development that characterise the rich countries. The single most representative facet of these economically advanced countries is the high per capita income. The material prosperity of these countries became possible over a period of time because of many and varied factors including fuller utilisation of resources.

Definition. In the context of underdevelopment, the backward economies can thus be symbolically represented by their poverty, or to be more precise by very low per capita incomes. This situation has resulted from such an interplay of forces or process in the long past that obstructed the development of these countries, leaving many a resources (physical and/or human) unused. These elements in a summary form constitute the essence of economic backwardness. We can therefore define underdevelopment as a situation marked by low incomes, and a defective process whereby the per capita incomes do not increase over a long period, despite the potential for it in terms of physical and/or human resources. We may now explain the components of the definition.

Low incomes. In the *absolute* sense the per capita incomes of the less developed countries are so small as to deny to the vast populations the minimum essentials for living like nutritious food, proper clothing, adequate shelter etc. In the *relative* sense these incomes are so meagre as compared to that of the developed countries that these pale into insignificance. The low incomes have resulted from the non/slow growth of these countries in the past long years. Most of these countries belong to Asia (except Japan), Africa and Latin America. The non-growth of these is best brought out by putting together the growth rates and the figures of per capita incomes of these countries with that of the developed countries. During the 100 years between 1850 and 1960, the rate of increase

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(annual compound rate) in the poor countries was almost zero at 0.1 per cent. As against this the growth rate of rich countries was 18 times larger at 1.8 per cent. As a result of these differing performances, the income levels came to differ very widely at the end of hundred years. While the per capita income of the developed countries reached the high figure of \$2280, that of the underdeveloped countries could crawl to a low of \$184.

Unused resources. The low incomes however by themselves do not suffice to prove that a country is underdeveloped. For this *additionally*, it needs to be brought out that such a country has the potential or prospects for development, in terms of material and or human resources. In the words of J. Viner, an underdeveloped country is one "which has good potential prospects for using more capital, or more labour, or more available natural resources, or all of these to support its present population on a higher level of living." Thus the existence of the resources/potential for development is necessary for, without it raising of incomes, is not possible. In other words, the availability of underutilised potential of a country with low incomes points to the fact of underdevelopment of the country concerned.

Defective process. Even as such the reality of underdevelopment cannot be fully comprehended. It leaves open the question as to why these resources remained under-utilised. What are those causes *peculiar* to these countries that brought about this situation? To answer this, one need not list all the reasons for these vary from country to country. One can however generalise in terms of factors that promote development, and whose absence cause underdevelopment.

There are many forces, political, economic and social, that need to be favourable for development to take place. Examples of such factors/forces are: institutions for collecting people's savings; entrepreneurs to use these resources; labourers who are hardworking; governments imbued with economic initiative; people with pro-development attitudes and activities etc. These factors are inter-related in the sense that one cannot exist or work without the other. As such their existence re-inforce one another in the direction of development. And their non-existence mean underdevelopment. The operation of these constitute the process. In the poor countries this process has been one of anti-development.

To sum-up underdevelopment symbolically represented by low incomes, and the existence of potential for higher living levels, is a result of unfavourable forces that prevented development of these countries.

Indicator and Objective of Development

As incomes are very low in the underdeveloped countries, a rise in them is taken as an appropriate index and objective of development. In recent years, this has however been questioned. Instead other non-income indices have been put forward, and used independently or alongwith income-index.

Income-index. There are two sets of income figures that are used to represent growth. One relates to increases in the total real national income of a country, (i.e. money national income corrected for price changes or national income at constant prices). In terms of this index, an economy is said to be growing when its output/income increases for a long period of time, running into three to four decades. In case the economy's output/income remains stable, it is an indication of a static/stagnating economy or non-growth. A declining trend in output/income represents declining state of the economy or a negative growth. Second and the most widely used index of development is a rise in the real per capita income (i.e. changes in the real national income adjusted for changes in population) over a long period of time.

Since goods and services are grossly inadequate in the poor countries, increases in national income is obviously of paramount importance. But from the

welfare point of view availability of goods and services per head is significant. It is more so as the population in these countries is rising at a fast rate. Thus a rise in national income no doubt by itself does show growth. But its welfare significance can be properly measured by the index of per capita income.

Criticism of Income-approach. While income-raising (the basis of income-index) is considered an important objective of development, it is contended by some, that this cannot be the sole objective, not even the main objective in many cases. The dissatisfaction with this approach has been caused both by the conceptual weaknesses of the income index as also by the dismal experience of development of the poor countries since the fifties. First as for the conceptual shortcomings are concerned one may mention two principal ones. One is that national income indicator makes no distinction between unproductive and dysfunction growth and productive and socially useful growth. For example, increase in military expenditure and increase in drug abuse (involving large expenditure on drugs) etc. get counted as additions to the national income. Take another example. An improvement in people's health through preventive advice measures, reduction in water pollution etc. results in the reduction on medical bills through lesser expenditure/production of drugs, lesser medical tests, lesser doctor's fees etc. But this lessening of expenditure show up as reduction in national income.¹ Secondly, the assumption of this approach that the vast poor masses of these countries will also benefit from the rise in national income has been belied by the actual experience in the last more than three decades, since the fifties. The expectations in the fifties were that the growth in national income after initially favouring the upper classes would "trickle" downwards and benefit the poorer sections. But such expectations were not fulfilled in most of the developing countries. In fact the poor has grown poorer and in many countries their number is much larger than before.²

PQLI. Largely as a reaction to the inadequacy of income-index as the only criterion of development, there grew a body of opinion and literature that emphasised non-income objectives (and indices) of development. Among them one emphasises the physical *quality* of life that results from a certain *use* of national income, rather than the *quantity* of national income. This is known as the Physical Quality of Life Index, PQLI for short. The Index incorporates three components: life expectancy; infant mortality; and literacy. This approach measures what the individuals need and desire initially and at the most basic level. They wish to enjoy longer life, lead a life of reduced illness, and be prepared for greater opportunities in this world. A higher index shows that large many people have benefited in terms of the three components that is the life expectancy has gone up, infant mortality reduced and literacy expanded.

Such an improvement can take place even with no/little rise in national income. It is so because with a change in the *use-pattern* of national income, a country can favourably influence these three elements of the objective. However, it must be conceded that in the poor countries only little can be achieved in these spheres without substantial growth in national income. Without such a growth necessary facilities cannot be expanded much and for many, such as for better and nourishing food, for medical, and educational needs etc., which have bearing on the physical quality of life.

Basic needs approach. The most recent and a further break away from the objective of a more rise in national income is the approach that gives priority to the meeting of the basic needs of the vast population of the poor countries. This line of thinking considers even the PQLI as inadequate and less helpful in meeting

¹Harlen Cleveland and Thomas W. Wilson, Jr., *Human Growth*.

²Ibrahim M. Samats, From 'Growth' to 'Basic Needs', *The Evolution of Development Theory*, Monthly Review, October, 1984.

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the many evils of poverty. This approach also being emphasised by such world bodies as ILO and UNESCO, includes satisfying minimum levels of material needs such as: consumption of food; provisions of clothing and shelter; and access to such essential public services as pure drinking water, sanitation, public transport, health and education. The objective of development therefore is meeting the needs of the vast masses. Consequently the index indices of progress have to be in terms of the production of these goods and services.

This approach includes not only the objective of increasing the *rate* of growth income, but more importantly a *pattern* of development that encompasses objectives like the following: a composition of national product tilted in favour of necessities of life; a production that is labour-intensive in the sphere of consumer goods using local resources and turning out goods demanded by the masses etc.; a redistribution that is directed to the eradication of poverty; a public expenditure that offers services to the weaker sections of population etc. In brief the approach of "Basic Needs" is meant to achieve the objectives of removing poverty, unemployment and inequalities that have marred the growth of many countries in the recent past.

To sum up, the objective as also the index of development is a rise in the per capita income subject to the qualifications that the basic needs of the population are met. This qualification further implies that poverty is reduced/eliminated, inequalities are lessened etc. At the minimum when per capita income increases in the long run, there should be no increase in the absolute number of the poor and there should be no increase in the inequalities of incomes. In fact, there is a general agreement on the definition of development that lays stress on the rise in the per capita income and the fulfilment of minimum conditions in respect of the number of the poor and the distribution. In the words of Meier, the definition that would now gain widest approval is one that defines economic development as the *process* whereby the *real per capita income* of a country increases over a *long period* of time subject to the *stipulation* that the number below an "absolute poverty line" does not increase, and that the distribution of income does not become more unequal."³

GROWTH PLUS CHANGE

In connection with the subject of economic progress, we use very often the terms "growth" and "development" as equivalents. We should however make a distinction between the two for reasons of clarity.

Output-expansion. The term growth is mostly confined to represent the phenomenon of an increase/trend in output in goods and services. The contents of the term has largely been derived and explained in the context of developed countries. As such the development or rather growth theory has come to be increasingly formulated in a context where factors supplies are elastic in the sense that given demand, inducements these are forthcoming. In other words there is no problem of factor shortages. Most of the theoretical apparatus has, therefore, developed around allocation-problem, improvement in the quality of factors (through education and training) and advancement in science, technology etc. And the institutional setting for the growth theory has largely been a developed market. For these reasons some describe the growth theory as a rich-country-theory which explains output expansion but does not explain how factor supplies can expand.

Plus structural changes. In less developed countries which suffer from low incomes the objective of output expansion/growth is of prime importance. For

*Gerald M. Meier. *Leading Issues in Economic Development* (1984), p. 6.