

Socialistic pattern, economic stagnation and after

Thankfully, India, like most other countries, has moved away from socialism and rigid government controls



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UNTIL the debacle of the China War in 1962, Jawaharlal Nehru was the idol of the masses, poor and well to do, old and especially the educated young. Opponents to his economic ideas inside the party either died early (Sardar Patel), or went to other parties (Rajaji, Shyama Prasad Mukherjee).

Nehru's respect for the Soviet model of central planning and control, and for the Labour Party's welfare state in the UK, were brought to India's economic policies.

The Industrial Policy Resolution of April, 1948, classified industries into four categories:

■ Defence and strategic industries (manufacture of arms and ammunition, production and control of atomic energy and ownership and management of railways). These would be exclusive to the central government.

■ Basic and key industries such as

coal, iron and steel, aircraft manufacture, ship building, etc, would have all new units set-up by the state. The old units were to continue to be run by the private entrepreneurs for the next ten years when the question of their nationalisation would be decided.

■ Some industries were to remain in private ownership but subject to overall regulation and control by the government. Such industries included automobiles and tractors, sugar, cement, cotton and woollen textiles, etc. Remaining industries were to remain with the private sector. Government would exercise only an overall general control on such.

■ Foreign Capital was welcome provided it came without any strings or conditions attached. Foreign capital will be allowed in joint participation with Indian capital, with majority in management and control with Indian hands.

Cottage and small scale industries would have a key role in economic development. It sought to provide encouragement to these industries.

The Industrial Policy, thus, laid down the foundation of a mixed economy, wherein the public sector (the state) and the private sector were to co-exist and work in their demarcated areas.

The resolution stated that a “mixed



economy” was the goal and had controls on the private sector. In 1954, the government later ratified at Avadi a Congress party resolution that the goal was to create a “socialist pattern” of society in India. It openly defined its goal as central planning and a government control over the economy.

This brief history will make it clear that Nehru was the force behind making India a centrally planned and controlled economy. Successive Congress governments led by the Nehru family merely fol-

lowed these directions. Indira Gandhi carried these ideas forward by nationalising banks, insurance, textile mills, etc. But her party prevented her from nationalising trade and distribution. Rajiv Gandhi tried to reduce the severe rigidities that had crept into policy and implementation, but did not change the dominant role of government in regulating the economy, especially industry. India had an annual economic growth rate of 3%, famously titled by Prof Raj Krishna as the “Hindu” rate of growth. Even the modest

relaxations in policies brought by Rajiv Gandhi led to a spurt in the annual growth rate.

PV Narasimha Rao government made radical basic departures from Nehruvian policies. Even though Congress led, there was no Nehru family control. A much greater role was given to private enterprise and controls were relaxed (industrial licensing, imports, technology transfers, foreign capital, direct and indirect taxes, price controls, etc). Growth rates remained high. The NDA government under AB Vajpayee, continued the same policies and growth remained high. The subsequent government for ten years led by Sonia Gandhi and Manmohan Singh, made little change in economic policies, though it did so with innovative social policies (particularly the employment guarantee scheme).

Thankfully, India like most other countries, has moved away from socialism and rigid government controls over industry and investment by foreign and domestic investors. The government is yet to state that it is going to reverse “socialist” industrial policies. Like its predecessors it has done little to formulate an integrated agricultural policy that looks together at land ownership and sales, land leasing, bringing technology to the farmers, con-

trolling ground water use, recharging rivers and ground water, efficient and economical ground water pumping, relating minimum support prices for agricultural products to water use, to name the important ones. Though this government innovatively declared a major national skills development programme, its implementation and results are inadequate. Investment in industry and its growth, have been weak. Cottage and small scale have got little attention. While the impending goods and services tax will be a stimulant to industry and trade, the problem of interstate permits must be resolved for benefits to flow. Natural resources owned by the state must be better used and dishonest leases and sales as under the previous government, must cease. Administrative reform to improve accountability and delivery is an urgent need. Many steps have been taken to reduce corruption, except the most important one of election funding.

This government, unlike earlier ones, has no excuse for not moving ahead to remove the many encumbrances on our entrepreneurs, people and the economy.

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