The only redeeming feature is the existence of parliamentary democracy Institutions of democracy, especially at the time of elections, force the political parties to talk about 'aam admi' (The common man) and also initiate measure to help the weaker sections of the society. This has resulted in some trickle down.

4. DEVELOPMENT STRATEGY IN INDIA

The basic objectives of our Five-Year Plans were "development along socialist lines to secure rapid economic growth and expansion of employment, reduction of disparities in income and wealth, prevention of concentration of economic power and creation of values and attitudes of a free and equal society." In order to achieve these objectives, the planners formulated a strategy of planned economic development.

Mahalanobis model of growth

It was only with the Second Plan that there was a clear enunciation of a strategy of development by Indian planners. Prof. P.C. Mahalanobis who was the real architect of the Second Plan, was responsible for introducing a clear strategy of development based on the Russian experience. This strategy emphasised investment in heavy industry to achieve industrialisation which was assumed to be the basic condition for rapid economic development. For Jawahar Lal Nehru, the first Prime Minister of India, the development of heavy industry was synonymous with industrialisation. He stated : "If we are to industrialise, it is of primary importance that we must have the heavy industries which build machines."[13] Again, "there are some who argue that we must not go in for heavy industry but for lighter ones. Of course, we have to have light industries also but it is not possible to industrialise the nation rapidly without concentrating on the basic industries which produce industrial machines which are utlised in industrial development."[14] Nehru was, thus, extremely forthright in pointing out that *industrialisation meant development of heavy industries*. The Plan frame of the Second Plan stated this, in unequivocal terms, as follows :

"In the long run, the rate of industrialisation and the growth of the national economy would depend upon the increasing production of coal, electricity, iron and steel, heavy machinery, heavy chemicals and heavy industries generally--which would increase the capacity for capital formation. One important aim is to make India independent as quickly as possible of foreign imports of producer goods so that the accumulation of capital would not be hampered by difficulties in securing supplies of essential producer goods from other countries. The heavy industry must, therefore, be expanded with all possible speed."[15]

Thus the core of the strategy adopted by Indian planners for the Second Plan and with minor modification for the subsequent three Plans (i.e. up to the Fifth Plan)--was rapid industrialisation through lumpy investment on heavy, basic and machine-building industries.

The Need for Rapid Industrialisation

The planners justified their strategy of rapid economic development through rapid industrialisation.

(a) At the time of Independence, India was essentially agrarian, though the country with its vast natural and human resources was ideally suited for industries. The planners felt that diversification of the use of resources would be in the interest of the country from the point of view of production, employment and defence. Resources should, therefore be applied more towards the development of industry rather than to agriculture.

(b) Indian agriculture was already suffering from heavy population pressure on land and productivity of labour on land was quite low--it was even thought that marginal productivity of labour on land might be zero and even be negative. One method of reducing this pressure of population on land and to raise agricultural productivity was to reduce the percentage of people living on land, and to shift the surplus population to industries. The setting up and expansion of the industrial sector was thus a necessary condition for raising the national product in general and for agricultural development in particular.

(c) Rapid industrialisation was an essential condition for the development of not only agriculture but also for all other sectors in the country. For instance, with the expansion of industries and the shifting of labour from rural to urban areas, the demand for foodgrains and agricultural raw materials (such as cotton, jute, oil seeds, etc.) would increase. At the same time, increased production and supply of fertilisers, pesticides, agricultural machinery, etc. would help in the expansion of agricultural production. With rapid industrialisation, and with rapid expansion of markets, there would be expansion in trade and commerce, in transportation, in banking and finance, etc.

(d) Productivity of labour is much higher in manufacturing than in agriculture. The growth rates are much higher in industry than in agriculture. Rapid

13. Nehru's speech in the Parliament on the Draft Outline of the Third Plan, on August 22, 1960.
14. Government of India, *Problems in Third Plan, A Critical Miscellany*, pp. 34-35.
15. *Second Five Year Plan--The Framework*.

increase in national and per capita income would be possible only through rapid industrialisation.

(e) The income elasticity of demand for industrial goods was much higher and export opportunities for manufactured goods were also high.

It was for all these reasons that industrialisation was emphasised by the Indian planners.

Heavy Industry Vs Light Industry

An important aspect of the investment strategy formulated by Professor Mahalanobis was the emphasis on heavy industries producing basic machines and basic metals. In other words, an increasing proportion of investment should be on machine-building industries. The Planning Commission supported this strategy for two reasons :

(a) Investment in the heavy industry helps the Indian economy to build up a larger volume of capital stock and at a faster rate.

(b) Heavy industries help to lay the foundation for a strong and self-reliant economy, partly through rapid expansion of all the sectors of the economy and partly by eliminating the dependence of the country on imports of essential machinery and equipment.

The Planning Commission rejected the alternative strategy of emphasising light industries producing consumption goods. True, this alternative approach would have the advantage of helping the Indian economy to produce a larger volume of consumption goods and this would have helped the people to have a higher standard of living in the short period and also combat inflationary pressures in the country. But this could be achieved by neglecting the accumulation of capital stock in the country. The Planning Commission rejected the short period availability of consumption goods in favour of production of capital goods which, in fact, would help, after a certain critical stage, to produce a larger volume of consumption goods. The capital goods approach based on the Russian experience, expected people to sacrifice in the short period in favour of a high level of living in the long period. Besides, this approach would enable the country to have a large volume of the capital goods in the short period and a large volume of both capital and consumption goods in the long period.

Implications of heavy industry strategy

The important implications of this strategy may be noted here.

Small scale industries and supply of consumer goods. The planners of the Nehru era were clear in their mind that the growth of heavy industries would be limited by the growth of consumer goods in the household sector. Naturally, they did not ignore or neglect the growth of small sector for instance, the Second Plan framework stated: "The greater the marketable surplus of consumer goods in the household or hand industries, the greater will be the possibilities of investments in heavy industries without any fear of inflation."[16]

For one thing, the growing population has to be fed and clothed; actually, the demand for consumer goods will increase with the growth of population. For another, increasing rate of investment on heavy industries with long gestation periods would be responsible for increase in money supply with the general public and in the absence of matching supply of consumer goods will result in inflationary pressures. The Nehru-Mahalanobis model, gave active encouragement to cottage and small industries producing consumer goods. It was asserted that the input-output ratio would be low in small-scale and cottage industries and the gestation period was also very short and obviously, the small sector was ideally suited to increase the supply of consumer goods. Besides, Professor Mahalanobis argued that the cost of production in the cottage and small sector need not be higher than that of the factory sector since the small sector would also be making use of modern machinery and electricity.

Nehru also gave due importance to small-scale industries and agriculture which were the sources of consumer goods. In his own words, "The test of a country's advance in industrialisation is heavy industry--not the small industries that may be put up. That does not mean that small industries should be ignored. They are highly important in themselves for production and for employment."[17] The framework of the Second Five Year Plan stated : "The strategy requires all-out efforts for the maximum utilisation of capacity in existing industries and for the development of additional production in the capital light or small sector of industries."[18]

Place of Agriculture in the development strategy. On agriculture, Nehru stated : "We shall find that this industrial progress cannot be achieved without agricultural advance and progress . . . Everyone knows that unless we are self-sufficent in agriculture we cannot have the wherewithal to advance in industries. If we have to import food, then we are doomed so far as progress is concerned. We cannot import both food and machinery."[19]

It is thus clear that the Mahalanobis strategy of self-sustained growth based on heavy industries did not ignore or neglect the growth of small and cottage industries for increasing the supply of consumer goods.

In spite of many favourable factors for increasing the supply of consumer goods, Professor Mahala-

16. *Second Five Year Plan—The Framework*, p. 15.
17. Government of India, *Problems in the Third Plan, A Critical Miscellany*, p. 51.
18. *Second Five Year Plan—The Framework*, p. 63.
19. Government of India, *Problems in Third Plan—A Critical Miscellany*, pp. 35-36.

nobis did anticipate shortage in supply of consumer goods and possible rising prices and costs endangering the planning process. In his strategy of development, therefore, he provided for fiscal and physical controls including rationing to keep the prices in check.

Role of the Public Sector. The Mahalanobis investment strategy assigned a dominant role to the public sector. As investment in the heavy sector was very high and as the gestation period was too long and that too with low profitability, the Government felt that heavy industries should be, by and large, in the public sector. Except in isolated cases, the private sector too was not keen on providing infrastructural facilities. Besides, the control of the public sector would vest the control of the commanding heights with the Government and this would help the development of a socialist economy. Above all, the public sector would prevent the rise of monopoly ownership and exploitation which are inherent in the private sector. It was for these reasons that from the Second Plan onwards, the Government went in a big way for the expansion of the public sector.

The role of the private sector. While giving direct responsibility to the public sector for infrastructure investment and the development of heavy industry, the development strategy expected the private sector to develop and expand its activities in a large area of economic activity. In fact, the private sector was given an important place in the mixed economy of India. But the activities of the private sector were seen to be essentially complementary to a rapidly growing public sector. The private sector was also expected to function in harmony with the overall aims and policies of economic planning. The planners anticipated a growing trend towards concentration of economic power in the private sector and to counter this trend, the planners provided larger opportunities for new entrants for medium and small-sized units and also for extensive use of controls and regulations and also use of appropriate fiscal measures.

Role of foreign trade and foreign aid. Initially, the Planning Commission relied considerably on foreign aid to meet India's requirements of capital goods, as our foreign exchange earnings were inadequate. At the same time, the planners had to provide for foreign aid, since the rate of domestic savings was inadequate to match the planned higher rate of investment. They also emphasised that the creation of export surplus and export promotion should go hand in hand with rapid industrialisation. However, this aspect of the strategy was forgotten in practice even during the first decade of planning. The Third Plan clearly brought out this point : "One of the main drawbacks in the past has been that the programme for exports has not been regarded as an integral part of the country's development effort."

Development strategy and employment objective

The Mahalanobis strategy of planning was essentially to *achieve the objective of self-sustained long-term growth via investment in the heavy sector.* For "rapid industrialisation and diversification of the economy", the Mahalanobis strategy considered the development of "basic industries and industries which make machines to make machines needed for further development as the crucial element. This strategy naturally came in conflict with the employment objective of our plans. For, a fast and self-sustained economic growth could be ushered in only through emphasis on capital-intensive production, namely, "by building of economic and social overheads, exploration and development of minerals and promotion of basic industries like steel, machine building, coal and heavy electricals". To solve the conflict between rapid growth on the one side and immediate increase in employment opportunities on the other, Mahalanobis strategy adopted a "policy of encouraging labour-intensive techniques in consumer goods industries even as the capital-intensive sector of heavy industry was being expanded rapidly."

Strategy to achieve social objectives : Use of fiscal policy

The Mahalanobis investment strategy broadly implied that increase in production would be accompanied by better and more equal distribution of income and wealth. Apart from this assumption, Indian planners relied on Fabian socialist strategy of using fiscal policy of taxation and public expenditure to achieve the two social objectives of planning, viz., the removal of inequalities of income and wealth on the one hand and the establishment of a socialist society based on equality and justice, on the other.

Fiscal policy aiming at the reduction of inequality of income and wealth had two aspects. Highly progressive income tax was to be imposed to lop off the high incomes beyond a certain level (marginal rate of income tax at one time was 97.25 per cent). Estate duty was to be highly progressive so as to remove a portion of large fortunes; other taxes falling exclusively on affluent sections of the community included wealth tax, capital gains tax and gift tax. While direct taxes attempted to transfer part of the income and wealth of the rich to the Government, public expenditure was specifically used to promote the welfare of the lower income groups and weaker sections of the community.

A fast and concerned development of education was to be an important means for ensuring greater equality of opportunity to different sections of the population. Public expenditure on public health and sanitation, housing, etc. was used to achieve "a measure of redistribution in the consumption of basic necessities such as health and medical care, sanitation, water supply and cheap housing. Tribals, Dalits and other backward classes were to receive favoured treatment under special programmes."

Apart from the use of fiscal policy, the planners did not adopt any measures for direct redistribution of property and wealth to achieve reduction of disparities of income and wealth and to prevent concentration of economic power. The only exception was the half-hearted attempts at land reforms and ceiling on land holdings in rural areas.

Appraisal of the Heavy Industries Development Strategy

The "heavy industries" investment strategy formulated during the Second Plan was the basis of the development of the Indian economy during the last five decades, except for the short period of two years or so — 1977-79 when the Janata Party attempted a shift in favour of small industry and consumer goods.

The heavy industries strategy was hailed during the Second and Third Plans but came in for considerable criticism later. It was commended for the smart rise in saving and investment rates in the country, for the impressive development of economic infrastructure specially in irrigation, energy, transport and communication, etc., considerable expansion in the capital goods sector via the dominant role of the public sector, self-sufficiency in consumer goods and in basic commodities, diversification and expansion of industrial capacity and impressive growth of science and technology. However, this development strategy was severely criticised for its inadequate emphasis on agriculture and small-scale and cottage industries, for the emergence of continuous trade deficits, for growing unemployment in the country and above all, for growing inequality of incomes and wealth on the one side and very slow reduction of of poverty on the other.

5. MODELS OF ECONOMIC DEVELOPMENT : NEHRU Vs. GANDHI

Nehru-Mahalanobis model of development emerged as the driving force of the strategy of development adopted in the mid-fifties at the time of formulation of the Second Five Year Plan. This strategy has continued right upto the eighties with a short interregnum of about 2-3 years when Janata Party was in power during 1977-80. Nehru-Mahalanobis model was based on long-run development strategy which accorded greater preference to the long-term goals of development, rather than succumbing to the immediate and short-term goals. The strategy, therefore emphasised

(a) a high rate of saving so as to boost investment to a higher level,

(b) it preferred a heavy industry bias to develop the industrial base of the economy,

(c) it opted for the protectionist path so as to safeguard infant industry,

(d) it encouraged import-substitution so as to achieve self-reliance, and

(e) it aimed at enlargement of opportunities for the less privileged sections of the society. Growth with social justice was thus the goal of Nehru-Mahalanobis model since it intended to foster a self-generating path of development with an assurance to the common man that poverty, unemployment, disease and ignorance would be removed so that individuals could realise their potential with the extension of social and economic opportunities. Since it was the credo of the fifties that market mechanism could not bring about judicious allocation of resources to meet the objective of growth with social justice, a much greater role was assigned to the State. The principal functions of the State in the economic sphere were the development of economic and social infrastructure. The economic infrastructure was concerned with enlargement of irrigation, power, transport and communications so as to expand markets as also to remove constraints in the form of power on industrial development and irrigation for agricultural development. By increasing social infrastructure in the form of education and health, the State intended to develop skilled manpower so that it could provide the necessary skills needed for the functioning of the new industries. To channelise investment into socially desired lines of production, the State nationalised major banks. Thus, in the Nehru-Mahalanobis model the *State controlled the commanding heights of the economy through the public sector.*

The Janata Sixth Plan (1978-83) acknowledged the achievements this strategy: "It is a cause of legitimate national pride that over this period a stagnant economy has been modernised and made more self-reliant." The achievements which could be the cause of legitimate pride were :

(i) An increase in the rate of saving from a low level of 7 per cent of GDP in 1950-51 to a high level of about 22 to 24 per cent.

(ii) To finance the process of development upto the end of the Seventh Plan largely by domestic savings. Foreign saving inflow formed merely 1.5 per cent to make up the gap in the planned investment.