SHANKAR IAS PARLIAMENT
Information is Empowering

Transformation of Indian Economy – A Economic Consolidation

Mains: *GS III – Indian Economy and issues relating to Planning, Mobilization of Resources, Growth, Development and Employment.*

Why in News?

Recently the external affairs minister noted the transformation of the Indian economy from the British era to present time and noted the resistance of India to economic domination.

What were the economic exploitations by British?

- **Serving British interest** – The sole purpose of the colonial Indian economy was to serve the interests of the British Empire.
- **Pre-colonial economy** – It was characterised by self-sufficiency in agriculture, flourishing handicrafts, and a favourable trade balance, was systematically undermined under colonial rule.
- **Diversion of Indian revenue** – During the mercantile phase of economic colonialism, the East India Company raised excessive revenues from India and diverted it to finance the export of Indian goods to Britain.
- **Effect of industrialisation in Britain** – The rise of British industrial capital, the Indian economy was gradually reduced to a mere supplier of raw materials and a market for finished goods from Britain.
- Industrialisation in Britain was thus at the direct expense of India's economy.
- **Rise of unequal competition** – Once assured of disproportionately high returns, the colonial administration encouraged private investment in India under conditions of unequal competition and monopoly.

- **Trade monopoly** – The East India Company's trade monopoly and British administration's support for private investment were deeply unfavourable to India.
- Even much-celebrated colonial infrastructure projects, such as the railways, were designed to serve British commercial interests rather than India's economic growth.
- **Results of the exploitation** – These exploitative policies led to a large-scale de-industrialisation, stagnation in agriculture, heavy tax imposition, and recurring famines that plunged millions into extreme poverty.

How Indian thinkers exposed British economic exploitation?

- **R Palme Dutt** – In his popular book *India To-day (1940)*, categorised this imperialist rule into three phases

    - Early capitalism
    - Industrial capital
    - Finance capital
- **Dadabhai Naoroji** – His Drain theory espoused in *Poverty and Un-British Rule in India (1901).*
- He noted that The British Indian Empire is *formed and maintained entirely by Indian money and mainly by Indian blood*.
- Britain has drawn thousands of millions of pounds besides.
- **R C Dutt** – His analysis of exploitative British policies in his book, *The Economic History of India (1901-1902).*
- **M G Ranade** – He is a critique of the dependent nature of the Indian economy.
- **G V Joshi** – He rightly observed that expenditure on the railways was to be reconsidered *as an Indian subsidy to British industries.*
- **Role of these thinkers** – These thinkers demonstrated how India was reduced to a dependent economy.
- **Responsibility of the leaders** – one of the foremost tasks for leaders of independent India was to consolidate and rebuild the economy devastated by nearly two centuries of colonial exploitation.

How India turned into a planned economy?

- **2 major ideologies** – India attained independence at the height of the Cold War, when two conflicting economic ideologies
    - Capitalism
    - Socialism
- These two major ideologies were shaping the world order.
- **India's position** – Having emerged from prolonged devastation caused by the dependence on a foreign power, India chose not to align with either ideology.
- Instead, it resorted to a pragmatic economic path that combined the features of both capitalist and socialist economies to address its unique challenges.
- **Pre independence plans** – The idea of economic planning predated independence, and some early proposals had already been advanced, including
    - The Visvesvaraya plan (1934),
    - The establishment of the National Planning Committee by the Indian National Congress (1938)
    - The Bombay Plan (1944)
    - The Gandhian Plan (1944)
    - The People's Plan (1945)
- **Inspiration from Soviet** – Drawing from the Soviet model of economic planning, the leadership of independent India chose a planned approach to development and *introduced the Five-Year Plans.*
- The economic vision underlying the Five-Year Plans (FYP) was not the complete replication of the socialist economy.
- **Approach of FYP** – It envisaged a mixed economy in which the state was primarily concerned with increased capital expenditure in the public sector while allowing the private sector to operate without complete subordination.
- **Establishment of planning commission** – It was established through an executive

resolution in 1950.

- It was entrusted with the task of formulating and overseeing the Five-Year Plans.
- **First-Five Year Plan** – It focussed primarily on agriculture.
- **Second Five-Year Plan** – The focus shifted to rapid industrialisation, guided by the Mahalanobis model.
- **India's transformative path** – The formative years of planned development laid the foundation of India's economic trajectory, and aimed at
    - The eradication of poverty
    - Expansion of heavy industries
    - Raising national income
    - Modernising agriculture
    - Promoting import substitution
    - Strengthening the leading role of the public sector.

How the economy became centralized?

- **Centralisation of economy** – The emulation of the Socialist model of economic planning and the adoption of the Five-Year Plans made the Indian economy distinctly centralised.
- **Vision for command economy** – Policymakers envisaged a 'command economy' in which important economic decisions were taken by the Union Government.
- **Justification for centralization** – There was an urgent need to address the nation-wide issues such as
    - De-industrialization
    - Agricultural backwardness
    - Trade imbalances
    - Low national income
    - Inadequate investment in the capital sector
    - Poor public infrastructure in the early years of independence
- These issues further justified the need for centralised economic policies.
- **Structure of planning commission** – The institutional structure of the Planning Commission reinforced these centralising tendencies.
- **The Planning Commission** – It was neither a constitutional nor a statutory body.
- **Governing body** – The planning commission was chaired by Prime Minister and consisted of members from the Union Cabinet and experts appointed by the central government.
- This arrangement placed policy-making under the control of the Union Government.
- **Reduced role of Finance Commission** – The role Finance commission mandated under Article 280 of the Constitution, was gradually sidelined by the Planning Commission.
- **Balancing the centralization** – To balance the centralising tendencies, *the National Development Council (NDC)* was established in 1952 as an apex body of the Planning Commission.
- The NDC *ensured the participation of the Chief Ministers of states* and *administrators of Union Territories* by providing a consultative platform.

How the roles of the states are changing over years?

- **During initial years** – The states had the minimal role in the economic planning in the formative years of independence.
- They were directed and regulated by the centralised plans and the programmes of the Planning Commission and the Union Government.
- **Agents for implementation** – Nevertheless, states were the agents for implementing policies directed by the Union Government.
- They were entrusted with the crucial task of resource mobilization.
- **Effects of LPG** – These centralising tendencies diminished with the structural changes brought about by economic liberalization, privatisation and globalization and also changes in taxation.
- **Abolition of planning commission** – The abolition of the Planning Commission in 2014 marked the formal end of the era of planned development in India.
- **Emergence of NITI aayog** – NITI Aayog, which was the successor of the planning commission was established in 2015.
- It was envisaged more as a federal institution.
- **Governing Council of NITI aayog** – It is chaired by the Prime Minister and includes Chief Ministers of all states and Administrators of Union Territories.
- It thereby ensures greater participation in policymaking.
- **Competitive and cooperative federalism** – This new framework of sought to replace the earlier top-down, one-size-fits-all approach with consensus-driven decision-making.
- It was intended to make states equal and responsible partners in the country’s economic development.
- **The Emergence of GST** – The introduction of Goods and Services Tax (GST), curtailed states’ fiscal autonomy.
- This has been seen as running contrary to the spirit of fiscal federalism, and paved the way for continuing tensions in centre-state relations.

What lies ahead?

- The economic consolidation achieved in the formative years of independence, followed by paradigm shifts in the economic policies, illustrates India’s enduring capacity to respond to challenges posed by external factors and its adaptability in adverse circumstances.

Reference

The Indian Express| India’s Resistance to Economic Domination