

## Chapter 2

# Development in Modern India under Structural Dualism (1947–1980)

### 2.1 Introduction

When India got independence in 1947, the first Prime Minister, Jawaharlal Nehru, put it, ‘the soul of a nation, long suppressed, finds utterance’. Although the ‘suppression’ dates back prior to the Mogul era that begins in the early sixteenth century, there is no doubt that Nehru made this reference of ‘suppression’ specifically to the period of almost two hundred years of British colonisation (1757–1947).<sup>1</sup> It is not surprising that during this colonial period, economic development in general and industrial development in particular, regardless of whatever little took place, was not only extremely uneven, but also very slow leading. This structural force within the Indian society led to the formation of its socio-economic dualism. Foreign capital occupied a dominant position in Indian industry and absorbed a large portion of her newly created wealth in India’s so-called nascent ‘modern’ segment. Native capital of India’s ‘traditional’ segment, on the other hand, mostly engaged in money lending, invested in land or commerce, rather than in the new type of manufactures. Apart from these, banking facilities were inadequate, technical education was virtually lacking, natural resources such as coal were unevenly distributed, and, most importantly, the colonial government had an apathy<sup>2</sup> to genuine economic transformation of Indian society. With this background of weak transition, from traditional Indian society to modern, the Nehru government, after the independence, made attempts to give it meaningful expression using the ‘utterance’ that the ‘soul’ of the Indian nation found at ‘the midnight hour’ of

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<sup>1</sup>It was Lord Clive’s victory at Plassey in 1757 that inaugurated official British rule in India by the East India Company. As a result of the Mutiny of 1857, the Government of India was subsequently transferred from the hands of the Company to the Crown in the same year.

<sup>2</sup>As to the colonial government’s apathy towards India’s genuine industrial development, one could easily verify the fact that even towards the end of the colonial period (e.g. 1938–1939), about three-fourths of India’s imports consisted of manufactured articles, while raw materials and (agricultural) foodstuffs together showed about the same proportion to her total exports.

August 14, 1947. The very manifestation of this ‘utterance’ could be found in the declaration, by the Nehru government, of a Sovereign Democratic Republic India. The adoption of a new Constitution with the ‘Directive Principles of State Policy, designing of Industrial Policy, setting up of the Planning Commission, launching of Five-Year Plans for India’s economic development, etc, are some of the other crucial steps that were taken during the early stage of the Nehru administration. The idea was to tackle the state of socio-economic dualism inherited from the colonial administration. But, as we will see below, India’s inherited socio-economic dualism in absolute term continued as a prolonged *structural dualism* in relative term due to social and economic underperformance, particularly during the 1960s and 1970s.

## 2.2 Organised versus Unorganised Segments

In order to test the validity or otherwise of the above assertion, let us first explain what a *structural dualism* at the very aggregate level of the Indian society means. This means that India has two different socio-economic-technological environments—the *organised* (or modern) segment (predominantly *capitalistic*) and the *unorganised* (or traditional) segment (predominantly *pre-capitalistic*).

The *organised* (or modern) segment is divided into two sectors: public government sector and private corporate sector employing 10 or more persons, while the *unorganised* (or traditional) segment is essentially the household sector, which ‘includes conceptually not only farm households engaged in agricultural production, but also unincorporated enterprises<sup>3</sup> engaged in industry, trade, transport and finance, private ‘charitable’ trusts, as also households that are not directly involved at all in production of any kind (except very marginally perhaps through ownership of residential houses)’.<sup>4</sup> The *organised* segment thus includes all establishments in the public sector irrespective of their size and non-agricultural establishments in the private sector employing 10 or more persons. The *unorganised* (or traditional) segment is usually defined to be the segment that is not recorded under any factory legislation. This segment is mostly comprised of self-employed households and

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<sup>3</sup>Recently, ‘quasi-corporations’—defined in the UN’s *System of National Accounts* (SNA 2008) as ‘an unincorporated enterprise that has sufficient information to compile a complete set of accounts as if it were a separate corporation and whose de facto relationship to its owner is that of a corporation to its shareholders’—has been reclassified in the new series as part of private corporate sector. Some selected trusts and non-profit organisations are designated as quasi-corporations in India.

<sup>4</sup>RBI (1982, p. 1).

casual labourers with no steady employment and, therefore, no secure or sustainable incomes, and above all with no access to the benefits of social security.<sup>5</sup>

The *Report of the National Commission on Labour* (1969, p. 417) provides a list of major unorganised sectors employing large numbers of workers, most of whom are under- and unemployed. These categories include contract labour such as construction workers; labour employed in small-scale industry; hand-loom/power-loom workers; bidi and cigar workers; employees in shops and commercial establishments; sweepers and scavengers; workers in tanneries; tribal labour; casual and other unprotected labour; etc. This segment is usually characterised by low capital-labour ratios, low levels of formal schooling, low-paying jobs, poor working conditions, little job security, inferior social status, and, above all, lack of governmental support. India's poverty syndrome is directly associated with the very state and nature of its vast *unorganised* segment, although it is functionally related to its *organised* segment.

Although it has been more than four decades since the publication of this *Report*, the characteristics of the *unorganised* segment remain virtually the same. At the beginning of the new millennium, the Government of India set up the National Commission for Enterprises in the Unorganised Sector (NCEUS) on 20 September 2004 to review the status of India's unorganised/informal segment including the nature of its enterprises, their size, spread and scope, and magnitude of employment. In NCEUS's first report on 'Conditions of Work and Promotion of Livelihoods in Unorganised Sector', it is recorded that despite the Indian economy being on a sustained path of economic growth since the early 1990s when economic reforms were introduced, 'the picture that emerges for an overwhelming majority of Indians is one of extremely slow improvement or even deterioration in the quality of work'.<sup>6</sup>

The *unorganised* segment's contribution to the Indian economy's net domestic product (NDP) was virtually constant around 70% until 1980. Sundrum (1987, Table 6.18, p. 169) reports that the *unorganised* segment's *average* contributions to India's NDP were 72.8 and 69.0% for the periods 1960/61–1969/70 and 1970/71–1981/82, respectively. It has, however, been steadily declining since then, although with marginal up and down fluctuations within a range between 54.4 and 56.1% during the recent period from 2007–2008 to 2012–2013 (see Table 3.9).

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<sup>5</sup>Concept of *social security* in the context of developing countries (especially, with huge *unorganised* segment) needs to be broader than the one applied to the developed countries. Many rightly argue that economic security and social security are intimately connected in developing societies. There is, however, 'a general recognition that social security must be expanded to include not only new elements such as food provision, housing and sanitation; but also income and employment' (Jhabvala 1998, p. L8).

<sup>6</sup>NCEUS (2009, p. 17).

## 2.3 Genesis of Prolonged Dualism under Modern India<sup>7</sup>

The Indian experiences of economic development can be divided into four major phases:

Phase I: Planned development strategies/policies under the Nehru era (1947–1964);  
 Phase II: Dilution of industrial licensing system and import policy, and more controls (1965–1979);  
 Phase III: Policy changes towards liberalisation (1980–1990); and  
 Phase IV: Comprehensive liberalisation and its impacts (since 1991).

### 2.3.1 Phase I: Planned Development Strategies/Policies under the Nehru Era (1947–1964)

The new *Constitution*, adopted on 26 November 1949, contains the ‘Directive Principles of State Policy’. The State is, accordingly, directed ‘to promote the welfare of the people by securing and protecting as effectively as it may a social order in which justice, social, economic and political, shall inform all the institutions of the national life’.<sup>8</sup> Meanwhile, the Government issued its *Industrial Policy* on 6 April 1948 with the main thrust being the assurance that the existing industrial structure would remain undisturbed at least for ten years. Yet, as the Congress Party gained some confidence in the Government, more control gained momentum. The Government secured passage of the *Industries Bill* of 1949 ensuring more control over industry.<sup>9</sup> Because Nehru had a dream of planned economic development of the entire country, he, notwithstanding of some opposition even from his own Cabinet, took special interest in setting up the Planning Commission on 28 February 1950, with himself as its Chairman. It was July 1951 when the Planning Commission presented the draft outline of the First Five-Year Plan (1951–1956). In this Plan, greater emphasis had been given to agriculture, food and matters pertaining to agriculture, as a preparatory task for industrial development in the near future. The First Plan was, in fact, merely a set of internally coordinated specific investment projects including public irrigation, and, therefore, it cannot really be called a comprehensive one. However, the Plan was successful in the sense that its very modest (12%) targeted increase in national income was surpassed over the

<sup>7</sup>Discussion under the first three phases has been adapted from Dutta (1992).

<sup>8</sup>Article 38 under ‘Directive Principles of State Policy’ in Part IV of *The Constitution of India*.

<sup>9</sup>The present author has a summary of details on the nature of control in Dutta (1990, p. 90).

plan period. This was possible mainly because the production of food grains (cereals and pulses) increased from around 52 million tonnes to 66 million tonnes.<sup>10</sup>

As the political stability of his government grew, Nehru strengthened the planning process and as a result, the Second Five-Year Plan (1956–1961) was made highly comprehensive. The basic development strategy of this Plan was ‘Growth in Heavy Industry’. The basic objective was to be eventually less reliant on imports of producer goods from abroad. The Plan recommendation was that the new producer goods industries would be installed mainly in the State-owned public sector.<sup>11</sup> This was in conformity with the government’s declaration for the establishment of a ‘socialistic pattern of society’. For successful implementation of the development objectives, various regulatory control mechanisms were designed, one after another.<sup>12</sup> These controls used, were to be ‘exercised primarily through the executive branch of the State and especially through the bureaucracy’.<sup>13</sup> The rate of growth of industrial production was satisfactory with an increase in the general index of industrial production from 139 in 1955–1956 to 194 in 1960–1961 (with 1950–1951 = 100),<sup>14</sup> although the overall growth rate achieved during the Second Plan period was 3.9% per annum as against the target of 4.5%.

The general strategy of development in the Third Five-Year Plan (1961–1966) was very similar to that in the Second Plan i.e. the continuation of the strategy of sizeable investments in heavy industry, although traditional agriculture received some attention in this Plan. By the time the *Third Plan* was designed, a widening gap between targets and achievements became visible. The planners took notice of it. As a result, the *Third Plan* had laid emphasis ‘on implementation, on speed and thoroughness in seeking practical results and creating conditions for maximum production and employment and the development of human resources’.<sup>15</sup>

*The Nehruvian approaches to the role of State through planning mechanism and its implication for inclusiveness in Indian Society.*<sup>16</sup>

Because Nehru wanted both a ‘Welfare State’ and a ‘socialistic pattern of economy’ in a multi-class society like India, he had to go through necessary and inevitable compromises with the vested interest groups. His approach towards socialism was, in fact, tempered by democratic and humanitarian ideals as will be evident from our analysis below. As we have already mentioned, he did not want to accept either of the two major ideologies—capitalism and socialism—in their strict,

<sup>10</sup>Following *Third Five Year Plan* (1961, p. 39), Chakravarty (1987, p. 19) quotes these figures.

<sup>11</sup>The public sector is widely defined to include the administrative machinery of the government as well as public enterprises.

<sup>12</sup>A list of major regulatory control mechanisms are given in Dutta (1992, pp. 83–84).

<sup>13</sup>Sen (1982, p. 131).

<sup>14</sup>Quoting from the Government of India’s *Third Five Year Plan* (1961) document, Chakravarty (*op. cit.*, pp. 19–20). also notes that in spite of the spectacular increase in the machinery index during the *Second Plan* period, growth in iron, steel and chemicals was less spectacular and that of cotton textiles was virtually unchanged.

<sup>15</sup>*Third Five Year Plan* (*op. cit.*, p. xiv).

<sup>16</sup>This section has been adapted from Dutta (1990).

rigid or ‘doctrinaire’ sense. The exploitative capitalist system of the colonial State at home and abroad had always made him very repulsive towards the ideology of capitalism. To him, the ‘acquisitive society’ based on capitalism was no longer suited to the present age. Although he was an advocate for the ideology of socialism, he tried to avoid its extreme kind—State socialism in which the State is all-powerful entity governing practically all political and economic activities. Since Nehru believed that the State was relatively autonomous, that is, politically independent and very powerful, there was perhaps no need for the State to be fully involved in economic spheres as well. The argument in his own language runs as follows:

If you are going to make it [the State] very powerful economically also it would become a mere conglomeration of authority. I should, therefore, like decentralisation of economic power.<sup>17</sup>

Socialism to Nehru was more than an ‘economic doctrine’—it was a ‘philosophy of life’. According to him, socialism could be viewed from two approaches<sup>18</sup>—scientific and non-scientific. The first approach is basically economic and is less open to argument, while the second one ‘is a certain human approach, of humanity growing and developing’. Although Nehru did not deny the class contradictions that exist in the Indian society, he wanted ‘to deal with the problem in a peaceful and cooperative way by lessening rather than increasing these conflicts and trying to win over people instead of threatening to fight them or to destroy them’.<sup>19</sup> In other words, to deal with class contradictions, he chose the Gandhian solution of ‘class synthesis’ rather than the Marxian solution of ‘class struggle’. Although he repeatedly emphasised that political democracy without social democracy could not bring any real benefit for the masses, he followed easier methods of persuasion and reformism from the top rather than any painstaking path of mobilisation from the bottom. Consequently, India’s hierarchical social structure with its corresponding uneven power relations (economic as well as political) remains almost unchanged.<sup>20</sup> National planning as a technical instrument for economic development has, in fact, served the political need of the vested interests. In his interview with Karanjia, Nehru explicitly agreed with this view and tried to legitimise in the name of scientific socialism:

Our approach, being Socialist, is primarily an economic approach which has made politics revolve around economic policies....We have adopted also the planned and scientific approach to economic development in preference to individual enterprise of the old *laissez faire* school. We are, therefore, proceeding scientifically and methodically without leaving things to chance or fate.<sup>21</sup>

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<sup>17</sup>Nehru expressed this thought on socialism in the spring of 1958 (Brecher, p. 532).

<sup>18</sup>Karanjia (1960, pp. 51–52).

<sup>19</sup>*Ibid.*, pp. 76–77.

<sup>20</sup>The far reaching implication of these uneven power relations that exist in India has been elaborated in Dutta (1989).

<sup>21</sup>Karanjia (*op. cit.*, pp. 39 and 49).

Nehru's Scientific approach to socialism—State control from the 'commanding heights' of the economy, and 'decentralization of economic power' between the bureaucrat and elite groups-dominated public sector on the one hand, and big and petty bourgeoisie-owned private sector on the other hand, did very little to bring the vast majority of people into the process of planned economic development. Nehru believed that he was trying to move towards a socialistic pattern of society; but, on the contrary, the society actually moved towards the State-led capitalism.

In the midst of the Second Five-Year Plan, Nehru realised that the planned economic development had lagged far behind his expectation. He himself described the situation in a frustrating tone:

India today presents a very mixed picture of hope and anguish, of remarkable advances and at the same time of inertia, of a new spirit and also the dead hand of the past and of privilege, of an overall and growing unity and many disruptive tendencies.<sup>22</sup>

One could specifically mention such disruptive tendencies reflected in various newly established institutions. For example, basic institutions under Panchayati Raj (village councils) became 'merely a means through which rural oligarchies consolidated their power'.<sup>23</sup> Similarly, the administrative bureaucracy at the top 'have their power unabated, occupied heights of decisive importance in all new institutions, undertakings and enterprises'.<sup>24</sup> In spite of the fact that Nehru was aware of these ominous tendencies, and he was concerned morally and emotionally, he, however, could not do much. Later on, he seemed to lean more towards the non-scientific approach to socialism. By this approach, he basically meant Gandhian approach to rural development that lays emphasis on traditional agriculture with cooperative farming. Although the general pattern of development in the Third Five-Year Plan was essentially similar to that in the previous one, traditional agriculture was prioritised. He had a very high expectation of success in the Third Plan:

We are determined to succeed in this great adventure. We have faith in it because we have faith in our people, and it is the hard work and co-operative spirit of our people that will bring success and the advancement of our people to greater prosperity and equality of opportunity. The Third plan will, we hope, take us out of the rut of poverty that has brought so much unhappiness and degradation to our millions.<sup>25</sup>

Nehru's simply tremendous faith in planning and people in a society based on social hierarchy and economic unevenness did help in no way to realise his hope or even to move nearer to his ideal. Towards the very end of his life, we, therefore, find him bitterly disappointed and uttering:

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<sup>22</sup>Nehru (1960, p. 43).

<sup>23</sup>Chand (1966, pp. 38–39).

<sup>24</sup>*Ibid.*, p. 43.

<sup>25</sup>'An Appeal on 5 July 1961' in Gopal (1983, p. 332).

**Table 2.1** NSS estimates of incidence of poverty in rural India: 1960–1961 to 1970–1971

Year	Consumer price index	Rural per capita monthly consumption (in 1960–1961 prices)	Poverty line (Rs. per capita for 30 days)	Incidence of poverty (Percentage poor)
1960–1961	100	21.47	15.0	38.9
1963–1964	118	21.51	17.7	44.5
1964–1965	142	18.62	19.8	46.8
1967–1968	206	16.21	30.9	56.5
1970–1971	192	18.39	28.8	47.5

Source: Nair (1979, p. 135)

One thing that distresses me very much greatly is that....there is a good number of people in India who have not profited by planning, and whose poverty is abysmal and most painful.<sup>26</sup>

The following Table 2.1 gives a dire picture of increasing the incidence of rural poverty with decreasing per capita consumption and increasing consumer prices during 1960s.

One could ask the question: Was Nehru himself responsible for this failure? The answer is both ‘no’ and ‘yes’. The answer is ‘no’, because of his commitment to the liberal democracy and, therefore, the consequent constant compromises with the vested interest groups that had forced him to shun any drastic measure to break the power relation nexus of the Indian society. The answer is ‘yes’, when one finds that the Nehruvian State had managed to achieve a considerable degree of autonomy and Nehru himself had a great deal of room to manoeuvre the country’s uneven pattern of power relations. In spite of this, Nehru chose not to disturb the power structure—both economic and political. ‘On the most decisive question of all, his policy was’, as Moore (1965, p. 407) puts it, ‘one of rhetoric and drift’.

### ***2.3.2 Phase II: Dilution of Industrial Licensing System and Import Policy, and More Controls (1965–79)***

The delay in tying up foreign loans at the beginning of the Third Plan, sharp increase in defence spending after the Indo-Chinese conflict<sup>27</sup> in 1962 and suspension of credits by the USA towards the end of this Plan period worsened the foreign exchange shortage. Meanwhile, Nehru, the architect of Indian Planning,<sup>28</sup>

<sup>26</sup>‘A Speech in the Lok Sabha on 11 December 1963’ in Gopal (1983, p. 317).

<sup>27</sup>The Indo-Chinese conflict lasted from 20 October to 21 November in 1962.

<sup>28</sup>That Nehru was the architect of Indian Planning has been documented in detail by the present author (Dutta 1990).



died on 27 May 1964. The new Prime Minister, Lal Bahadur Shastri,<sup>29</sup> faced further deterioration in the foreign exchange situation especially when the Indo-Pakistan conflict,<sup>30</sup> in 1965, and the monsoon failure during 1965–1966, necessitated large-scale imports of food grains. Caught into the continued increase in defence spending on the one hand, and additional need for food import on the other hand, the government had to cut back public investment very sharply. This dampened economic growth, which led to ‘the emergence of significant excess capacity in the heavy and capital goods sector’.<sup>31</sup>

Due to the sudden death of the Prime Minister Shastri on 11 January 1966, the Indian economy started experiencing renewed instability. When Mrs. Indira Gandhi became the Prime Minister on 24 January 1966, she inherited an unstable economy that seemed to have drifted from its planned trajectory of economic growth and development. The government also temporarily abandoned the method of five year planning and instead adopted annual plans. The International Monetary Fund and the World Bank imposed special conditions, such as rupee devaluation and liberalisation of licensing mechanisms, in exchange for the resumption of the flow of aid/assistance. Consequently, the government allowed for a progressive dilution of the industrial licensing system along with the devaluation of the rupee by approximately 37% (in terms of exchange rate with the US dollar) in June 1966. As a panacea to the ailing economy, both large business houses and foreign capital were allowed into the ‘core’ sector industries,<sup>32</sup> given permission to increase the production limit by 25% of their licensed capacity, and also unauthorised capacity was legalised in a wide range of industries.

Towards the end of the three Annual Plans (1966–67, 1967–68 and 1968–69), which were nothing more than simple budgetary exercises, Mrs. Gandhi’s government managed to gain some degree of political stability and launched the Fourth Five-Year Plan (1969–1974). The main thrust of this Plan was to overcome the continued ‘agricultural stagnation’, and, therefore, ‘Modern Agricultural Growth’ became the development strategy of this Plan. The use of *seed-fertilizer*-based agricultural technology resulted in increased output to such an extent that this phenomenon became what is known as the Green Revolution in India. Although the Green Revolution certainly broke the agricultural stagnation, ‘it conferred more than proportionate benefits to the better-off farmers in the infra-structurally better endowed regions’.<sup>33</sup>

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<sup>29</sup>After Nehru’s Death, Gulzarilal Nanda was the Interim Prime Minister from 27 May to 8 June in 1964, and then Lal Bahadur Shastri became the new Prime Minister on 9 June 1964.

<sup>30</sup>The Indo-Pakistan conflict took place from 5 August to 23 September in 1965.

<sup>31</sup>Chakravarty (*op. cit.*, p. 22).

<sup>32</sup>The ‘core’ sector consisted of industries which were important because of their links to other industries such as synthetic rubber and certain chemicals.

<sup>33</sup>Chakravarty (*op. cit.*, p. 27).

Export promotional measures that had found some support during the second half of the sixties, gained momentum in official circles only at the beginning of the 1970s. A Cabinet Committee Export Policy resolution was passed in 1970. From 1971 onwards, a new dimension to the export promotion effort was added in the form of creation of a number of organisations aimed at providing export services to the exporting community.<sup>34</sup> Unfortunately, multiplicity of different organisations later on found to be inefficient for ‘providing export services such as advice on product development, product adaptation, adoption of technologies, information on marketing policies and procedure in other countries, etc.’<sup>35</sup>

From the points of view of both accelerating industrial development and improving the administrative efficiency, the Fourth Plan (1969–1974) document had shown greater willingness to modify the existing system of controls. In fact, the State sought for more controls,<sup>36</sup> especially following the Reports of the Committees<sup>37</sup> that revealed there had been impressive gains by the large industrial houses based on middle-class consumer goods industries catering to the urban population. Although the licensing system continued in much the same way as before, the *New Industrial Licensing Policy* announced by the Government of India in February 1970 had tried to reconcile the conflicting objectives of promoting economic growth and restricting concentration of economic power in the hands of larger private industrial groups. It has tried to encourage the growth of new and smaller entrepreneurs (i) without any need for obtaining a licence for projects requiring investment up to Rs. 1 crore, and (ii) promising liberal licensing for middle-level investments up to Rs. 5 crores and protecting them from the competition from the larger industrial units by not allowing the latter into these areas. Another new concept of the public-private ‘joint sector’ ventures in the core and heavy industries had been floated in the *New Industrial Licensing Policy*, but the private sector viewed it as utopian.<sup>38</sup> The existing *Foreign Exchange Regulation Act* (FERA) was also revised in 1973 specifically to curb excessive remittance of

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<sup>34</sup>Panchmukhi (1985, p. 296). Among the significant developments during the early seventies, included are the creation of *Export Promotion Councils*, *Commodity Boards*, *Trade Development Authority* and *Indian Institute of Foreign Trade*.

<sup>35</sup>*Ibid.*, pp. 297–298.

<sup>36</sup>Some examples of more controls include the passing of the *Monopolies Restrictive Trade Practices* (MRTP) Act in 1969, the nationalisation of fourteen commercial banks in July 1969, the introduction of new Industrial Policy in 1970, the revision of the *Foreign Exchange Regulation Act* (FERA), etc.

<sup>37</sup>Reports of two Committees are noteworthy: R.K. Hazari Report (1966) to the Planning Commission on “Industrial Planning and Licensing Policy” and the “Industrial Licensing Policy Inquiry Committee Report” (July 1969) known as Dutt Committee Report to the Government of India.

<sup>38</sup>Larger private industrialists’ views have been summarised in Wadhwa (1977, pp. 298–301).

profits abroad. Among other measures, the Act sought for giving the *Reserve Bank of India* greater control over foreign investors and reducing the equity positions of foreign companies in their Indian subsidiaries.

With an excessive price rise during 1973–1975 being accompanied by the oil crisis, the Draft Fifth Plan (1974–1979) required thorough revision. The above sentiment for more control measures, prevalent since the late sixties, acted as the basic background for the Draft Fifth Five-Year Plan's development strategy of 'Growth with Distribution'. The Draft Plan emphasised the objectives of employment generation and poverty eradication and favoured public ownership of financial institutions as an instrument for exercising an effective form of 'social control'. The whole process of long-term planning was, however, temporarily halted. Three Annual Plans were, instead, announced for 1974–1975, 1975–1976 and 1976–1977, in order to provide some breathing space before price stability was achieved and the revised Fifth Plan was ready. As a matter of fact, on 1 July 1975, Mrs. Gandhi announced the 20-point New Economic Programme<sup>39</sup>—a short-term crash programme to fill in the gaps of long-term planning. The Programme's objective was to uplift the poorer and weaker sections of the society, particularly in the rural areas. The above Programme was, however, discontinued when the Janata Government<sup>40</sup> came into power in March 1977 with more focus on promoting economic self-reliance and indigenous industries, requiring multinational corporations (MNCs) to have partnership with Indian companies and to adhere to a particular provision of what was then the Foreign Exchange Regulation Act (FERA).<sup>41</sup>

After terminating the Fifth Plan on 31 March 1978, the reconstituted Planning Commission, under the Janata Government, decided to experiment with a Decentralised Planning Model. This Model was supposedly trying to link the Central Planning Authority with the grass-root units, consisting mostly of Party Cadets, and the intermediate bodies comprising expert representatives of agriculture, industry, trade and commerce. However, the experiment did not get any chance for its implementation because of the Janata Government's collapse towards the end of 1979.

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<sup>39</sup>The 20-point programme included measures to bring down prices of essential commodities, promote austerity in government spending, crack down on bonded labour, impose ceilings on ownership and possession of vacant land, acquire excess land and distribute among rural poor, liquidate rural indebtedness and make laws for a moratorium on recovery of debt from landless labourers, small farmers and artisans.

<sup>40</sup>The declaration of a State of Emergency by Mrs. Gandhi on 26 June 1975 and later on its lifting for elections in March 1977 are believed to have paved the way for the Janata government—the first non-Congress government at the Centre. Morarji Desai was its Prime Minister until he resigned on 15 July 1979. Afterwards, Janata(S), formed by Raj Narain in early July 1979 and claimed to be a secular party, formed the government with Charan Singh as its Prime Minister sworn in on 28 July 1979.

<sup>41</sup>This policy under the Morarji Desai government with George Fernandes as its industry minister led to the exit of high-profile MNCs like Coca-Cola and IBM from India in 1977.

## 2.4 Major Structural Changes of the Indian Economy (1951–1980)

One of the major structural changes during 1951–1980 was in the composition of output (see Table 2.2). Although *agriculture* continued to be the major production sector, its share in gross domestic product (GDP) declined from an average of 59.0% during 1951–1956 to 38.8% in 1979–1980. The share of *industry* (manufacturing, mining and construction) increased from an average of 14.7–22.4% during the same period, while that of infrastructure (electricity, gas, water supply, transport, storage and communication) rose from an average of 4.0–8.4%. The remaining components (trade, hotels and restaurants, financing, insurance, real estate, business and other services) of GDP increased from an average of 22.3–30.4% over the same period.

There had also been major changes in *industrial structure* and *industrial organization*. As to the former one, there had been a shift in production from traditional agro-based industries to chemicals and engineering industries. During the period from 1956 to 1980, the production weight of food decreased from 15.7 to 8.9%, while that of textiles decreased drastically from 47.0 to 19.7%. During the

**Table 2.2** Composition of India's gross domestic product (1951–1980) (at 1970–1971 prices) (per cent)

Plan period	Agriculture and allied sectors	Manufacturing and construction, mining and quarrying	Electricity, gas, water supply, transport, storage and communication	Others	Total
First Plan (1951–1956)	59.0	14.7	4.0	22.3	100.0
Second Plan (1956–1961)	55.5	16.8	4.6	23.1	100.0
Third Plan (1961–1966)	49.5	20.1	5.5	24.9	100.0
Annual Plans (1966–1969)	46.0	21.4	6.3	26.3	100.0
Fourth Plan (1969–1974)	45.9	21.1	6.5	26.5	100.0
Fifth Plan (1974–1979)	43.3	21.4	7.5	27.8	100.0
1979–1980	38.8	22.4	8.4	30.4	100.0

Source: Averages for Plan periods are computed from annual data published in *National Accounts Statistics* (Central Statistical Organisation, Government of India). Adapted from RBI (1985, Table 2)

**Table 2.3** Composition of India's industrial structure (1956–1980) (Sectoral weights (%))

Manufacturing sector	1956	1960	1970	1980
Food	15.7	14.2	9.5	8.9
Textiles	47.0	31.9	21.5	19.7
Rubber, chemicals and petroleum	11.7	12.9	18.2	21.4
Non-metallic minerals	2.8	4.5	4.1	3.9
Basic metals and alloy industries	10.4	8.7	10.9	15.7
Engineering (manufacture of machine tools, parts and appliances)	8.3	19.7	25.9	23.9
Others	4.1	8.1	9.9	6.6
Total manufacturing <sup>a</sup>	100.0	100.0	100.0	100.0

<sup>a</sup>Total Manufacturing does not include mining, quarrying and electricity sectors of the Index of Industrial Production

Source: This table has been partly adapted from RBI (1985, Table 3). Figures for 1980 have been computed by the author from *Statistical Abstract India 1997*, CSO, Government of India (Vol. 1, Table 9.7, p. 166)

same period, the production weight of engineering industries increased rapidly from 8.3 to 23.9%, while that of rubber, chemicals and petroleum industries together increased from 11.7 to 21.4% (see Table 2.3).

There had also been a major transformation in the *industrial organization* with the growth and development of the *public sector*. The public sector had played a vital role in India's growth and development. The following statement in the document of the *Second Five-Year Plan: Summary* (1956, pp. 10–11) clearly outlines the role of the public sector in India's planned economic development and its implications for the role of private sector:

For creating the "socialistic pattern of society" the State has to take on heavy responsibilities. The public sector has to expand rapidly. It has to play a dominant role in shaping the entire pattern of investments— both private and public— in the economy and has to initiate developments which the private sector is unwilling or unable to undertake. The responsibility for new developments in certain major lines of activity which require the use of modern technology, large-scale production and a unified control and allocation of resources must be undertaken in the main by the State. Public ownership, partial or complete, and public control or participation in management are specially required in those fields in which technological considerations tend towards a concentration of economic power and of wealth. Private enterprise has to play its part within the framework of the overall plan. In a growing economy there is scope both for public and private sectors to expand simultaneously, but if development is to proceed at the pace envisaged and is to contribute effectively to the larger social ends in view, it is inevitable that the public sector must grow not only absolutely but also relatively to the private sector.

The public sector did, indeed, grow rapidly, and reached commanding heights in the economy in 1980 by contributing nearly one-fourth of gross domestic product (GDP) and nearly one-half of gross domestic capital formation (GDCF). This is evident from Table 2.4 that average share of the public sector in GDP increased from

**Table 2.4** Share of public sector in GDP and GDCF (1951–1980)

Plan period	% Average share of public sector in	
	Gross domestic product (GDP) (at factor cost)	Gross domestic capital formation (GDCF)
First Plan (1951–1956)	8.5	14.3
Second Plan (1956–1961)	9.3	21.9
Third Plan (1961–1966)	11.5	32.3
Annual Plans (1966–1969)	13.9	35.3
Fourth Plan (1969–1974)	16.0	39.4
Fifth Plan (1974–1979)	18.9	46.3
1979–1980	22.6	47.7

Source: RBI (1985, Table 7) has computed the figures from annual data published in various issues of *National Accounts Statistics* (Central Statistical Organisation, Government of India)

8.5% during the First Five-Year Plan (1951–1956) to 22.6% in 1979–1980,<sup>42</sup> while its corresponding share in the economy's GDCF increased from 14.3 to 47.7%. Even though the *public sector* had grown steadily, it by no means dominated the total economy. By 1980, the economy was predominantly a mixed one with the *household sector* or the *unorganised segment* contributing as high as about 70% of GDP; out of 30% share of the *organised segment*, the *public sector* contributing about 22.6% and the corporate (domestic and foreign) *private sector* contributing the residual of roughly 7.4% of domestic income.<sup>43</sup>

The corporate private sector, particularly its private industrial sector, had expanded in absolute terms under the government's protection from both *internal* competition (through industrial licensing policies) and *external* competition (through rigorous import trade control). The private-sector industrial units, particularly the major ones, had also benefitted from the government's liberal policy of financing their capital expenditures in both local currency and foreign exchange requirements at a very low interest rates through government's various term-lending institutions, such as the Industrial Development Bank of India (IDBI), Industrial Finance Corporation (IFC) and Industrial Credit and Investment Corporation (ICIC). Instead of investing into planning-authority-declared socially high-priority areas, namely the

<sup>42</sup>In fact, the percentage share of the Public Sector in GDP increased up to a maximum of 27.3 in 1992–93 (*National Account Statistics of India: 1950–51 to 1995–96*, EPW Research Foundation, 1997, p. 45) and then gradually declined to 19.9 in 2007–08; subsequently, it remained within a range between 20 and 21% during 2008–2014 (*National Account Statistics 2014*, p. 67 and *National Account Statistics 2015*, p. xxxviii).

<sup>43</sup>The variation of domestic income measured in terms of GDP and NDP has been ignored for the sake of approximation.

**Table 2.5** Performance under the Five-Year Plans during 1951–1990 (Per cent growth)

Plan period	National Income		Per capita income		Agricultural production		Industrial production	
	T	A	T	A	T	A	T	A
First Plan (1951–1956)	2.1	3.6	0.9	1.7	–	2.9	7.0	5.9
Second Plan (1956–1961)	4.5	3.9	3.3	1.9	–	3.2	10.2	6.4
Third Plan (1961–1966)	5.6	2.3	3.2	0.1	6.0	–0.5	10.7	6.8
Annual Plans (1966–1969)	5.0	3.7	N.A.	1.4	N.A.	6.2	N.A.	2.6
Fourth Plan (1969–1974)	5.7	3.3	–	0.9	5.0	2.6	7.1	3.7
Fifth Plan (1974–1979)	4.4	4.9	–	2.6	4.0	3.4	9.0	6.3
Sixth Plan (1980–1985)	5.2	5.4	3.5	3.2	3.8	5.5	6.9	6.2
Seventh Plan (1985–1990)	5.0	5.8	3.2	3.6	4.0	3.4	8.3	6.5

*T* Target, *A* Achievement

Source: Agrawal and Varma (1996, Table 19.1 based on various *Plan Documents* and *Economic Survey, 1993–94*)

core-sector and export-oriented industries, many private-sector industrial units, including some foreign-based ones units, had diversified investment into low-priority areas.<sup>44</sup> When both public and private sector results are pooled together, the overall performance of Indian Planning operation, particularly during the Second, Third and Fourth Plans and including three Annual Plans (1966–1969), had been poor. As can be seen from Table 2.5, although the shortfalls had been less pronounced in the achievements of the economy's specific targets in the Second Plan, these had further been deteriorated during the Third and Fourth Plans<sup>45</sup> before their improvement started marginally in the Fifth, Sixth and Seventh Plans until 1990.

<sup>44</sup>Several diversifications of investment into low-priority areas have been cited in Wadhva (1977, p. 146). For example, the Sarabhai Group (an Indian group—family based), which had traditionally been operating in the textiles field had diversified into radio business. Delhi Cloth Mills (DCM) (an Indian company—family based) had diversified into the production of electronic desk calculators and PVC plastics. Among the foreign-based multinational companies operating in India who had diversified into low low-priority fields of business were Hindustan Levers, ITC Limited (Principals: Imperial Tobacco Company) and Union Carbide. Hindustan Levers which had traditionally been operating in soap, clear butter (ghee) (prepared from edible vegetable oil) and baby foods business had planned to diversify into Sodium Tripolyphosphate and related raw materials required for the production of detergents. ITC (formerly, the Indian Tobacco Company) had diversified into hotel industry. Union Carbide which had been operating in the dry cells industry had diversified into deep-sea fishing. It is interesting to note that India's Central Bureau of Investigation (CBI) and Enforcement Directorate (ED) have been currently looking into whether Vijay Mallya, a beleaguered liquor baron, had used a part of the IDBI Bank loan given to his now-grounded Kingfisher Airlines for buying a racehorse that cost Rs. 9 crore (*The Economic Times*, 27 April 2016).

<sup>45</sup>India's slow rates of national income growth (around an average of 3.5%) in the earlier three decades since 1950 were coined as 'Hindu rate of growth' by the Indian economist Raj Krishna while referring to the results of the Congress Party's socialistic economic policies in India. In fact, Raj Krishna was the Deputy Chairman of the Planning Commission under the first non-Congress government at the Centre.

### 2.4.1 Implications for the Unorganised Segment

The public sector absorbed a high proportion of labour in tertiary activities, namely transport, storage and communication, as well as community, social and personal services, while the private sector did the same in manufacturing activities (Table 2.6). Employment in public sector's tertiary activities increased from 5.45 million in 1961 to 9.88 million in 1981, while that in private sector's manufacturing activities increased from 3.02 million to 4.42 million during the same period. But, the total employment level in the organised segment not only remained very small (as percentage of total labour force), but also increased at a snail's pace compared to the total labour force during 1961–80. As can be seen from Table 2.7, employment

**Table 2.6** Employment in the organised segment (public and private sectors): 1961–1980 (Figures in lakh)

Industry division brief description	Employment in public sector (as at the end of March)				Employment in private sector <sup>a</sup> (as at the end of March)			
	1961	1971	1979	1980	1961	1971	1979	1980
Agriculture, hunting, etc.	1.80	2.76	4.08	4.31	6.70	7.98	8.41	8.60
Mining and quarrying	1.29	1.82	7.71 <sup>b</sup>	7.97	5.50	4.04	1.24 <sup>c</sup>	1.25
Manufacturing	3.69	8.06	14.16	14.46	30.20	39.55	44.33	44.17
Electricity, gas, water, etc.	2.24	4.35	6.34	6.61	0.40	0.46	0.34	0.34
Construction	6.03	8.80	10.32	10.68	2.40	1.39	0.83	0.73
Wholesale and retail trade etc.	0.94	3.28	0.99	1.10	1.60	3.04	2.81	2.74
Transport, storage and communication	17.24	22.17	25.97	26.51	0.80	0.96	0.71	0.71
Financing, insurance, real estate, etc.	–	–	6.47	6.91	–	–	2.01	2.06
Community, social and personal services	37.27	56.07	70.71	72.24	2.80	10.00	11.40	11.67
<b>Total</b>	<b>70.50</b>	<b>107.31</b>	<b>150.45</b>	<b>150.78</b>	<b>50.40</b>	<b>67.42</b>	<b>72.08</b>	<b>72.27</b>

<sup>a</sup>For March 1961, the data relate to non-agricultural establishments in *organised* private sector employing 25 or more persons. Since March 1966, the coverage has been extended so as to include establishments employing 10 or more persons

<sup>b</sup>, <sup>c</sup>The rise (fall) in employment in the public (private) sector from March 1972 onwards was mainly due to nationalisation of coking coal mines by the government and the consequent shift of employment from the private to the public sector

Source: Employment figures for 1961 and 1971 are from *Economic Survey 1981–82* (Tables 3.1 and 3.2, pp. 108–109); the same figures for 1979 and 1980 are from *Economic Survey 1982–83* (Tables 3.1 and 3.2, pp. 114–115)



**Table 2.7** Selected decadal key indicators (1950–1951 to 1990–1991)

Item	Unit	1950–51	1960–61	1970–71	1980–81	1990–91
Population	Million	361	439	548	685 <sup>a</sup>	846
Population growth rate	Per cent	1.26	1.93	2.24	2.28	2.14
Labour force	Million	140.79	188.77	186.32	253.45	321.48
Labour force as a proportion of population	Per cent	39	43	34	37	38
Employment in the organised segment (Public + Private) <sup>b</sup>	Million	N.A.	12.09	17.47	22.31	26.35
Employment in the organised segment (as a proportion of total labour force)	Per cent	N.A.	6.40	9.38	8.80	8.20
National Income (at 1980–1981 prices)	Rs. Crores <sup>c</sup>	40,454	58,602	82,211	1,10,685	1,84,460
Per capita income (at 1980–1981 prices)	Rupees	1,127	1,350	1,520	1,630	2,197
Per capita private consumption expenditure (at 1980–1981 prices)	Rupees	1,006	1,193	1,322	1,462	1,860
Gross domestic saving as per cent GDP		10	13	16	21	24
Rate of investment <sup>d</sup>	Per cent	10	16	17	23	27
Share of public sector in GDP (at 1980–1981 prices)	Per cent	N.A.	9.4	12.7	19.7	26.2
Share of agriculture in GDP (at 1980–1981 prices)	Per cent	56.5	52.1	45.8	39.6	33.1
Index number of agricultural productivity (1967–1970 = 100)		77.1	94.2	107.9	122.7	174.7
Index number of agricultural production (1967–1970 = 100)		58.5	86.7	111.5	135.3	192.2
Index number of industrial production (1980–1981 = 100)		18.3	36.2	65.3	100.0	212.6
Index number of wholesale prices (1981–1982 = 100)		17	20	35	91	183

<sup>a</sup>Includes projected figure of Assam<sup>b</sup>These employment figures (except for 1990–1991) have been taken from Table 2.6 and converted into million (1 million = 10 lakhs). The employment figure for 1990–1991 has been taken from Dutta (2004, Table 11.2)<sup>c</sup>Rs. 1 Crore = Rs. 10 million<sup>d</sup>Gross domestic capital formation (GDCF) as percentage of GDP at current prices

Source: Agrawal and Varma (1996, pp. 15 and 75)

in the organised segment had been only 6.40%, 9.38% and 8.80% of the total labour force in 1960–1961, 1970–1971 and 1980–1981, respectively. This implies that the unorganised segment had to carry the liability of employing more than 90% of the total labour force mostly as self-employed households and casual labours.

The very slow trends in the organised segment's growth and employment shown above clearly indicate why *structural dualism*<sup>46</sup> persisted even after three decades of so-called planned economic development. The entire framework of government controls and regulations gradually reflected 'the inadequacies of the licensing authorities and other administrative authorities concerned with implementation of controls. ... The same [was] the case with the working of promotional agencies such as the term-lending institutions'.<sup>47</sup>

## 2.5 Two Major Socio-Economic Consequences of Structural Dualism (1960–80)

Two major socio-economic consequences of structural dualism often highlighted by the economists and other social scientists are (i) industrial deceleration and (ii) widening development disparity among the Indian States during 1960s and 1970s.

### 2.5.1 Industrial Deceleration (1966–79)

Due to various external and domestic economic and political factors,<sup>48</sup> experienced during 1966–1979 of the Phase II (1965–1979), industrial growth, in general, had been slow as compared to the last 6 years of the previous Phase I. Ahluwalia (1983) had noted two major trends as shown in Table 2.8: (i) industrial sector as a whole experienced a decline in the growth rate per annum of both *value-added* (from 8.0 to 5.7%) and *value-of-output* (from 8.8 to 6.5% per annum) figures; (ii) most of this deceleration was concentrated in non-consumer goods and particularly on basic goods and capital goods (if *use-based classification* is followed), and specifically, the metal-based industries (if *input-based classification* is followed). Various explanations are put forward for the underlying reasons for the above industrial deceleration:

These explanations, some mutually reinforcing, others mutually conflicting, have highlighted the following set of factors: poor agricultural performance despite the Green Revolution, relative price movements resulting in a shift in terms of trade against industry, unequal income distribution and resulting lack of demand, slowdown in import substitution, declining levels of public investment and increasing inefficiencies in the industrial structure resulting from governmental controls and policies.<sup>49</sup>

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<sup>46</sup>The phrase 'structural dualism' is here used as a short form of 'structural-functional dualism'.

<sup>47</sup>Wadhva (*Ibid.*, p. 147).

<sup>48</sup>Various explanations of the underlying reasons for industrial stagnation during 1966–1979 have been summarised in Varshney (1984).

<sup>49</sup>Elaborated explanations of these factors can be found in Varshney (1984).

**Table 2.8** India's industrial growth rates: 1959–1960 to 1978–1979 (Per cent Per annum)

	Value added		Value of output	
	1959–1960 to 1965–1966	1966–1967 to 1978–1979	1959–1960 to 1965–1966	1966–1967 to 1978–1979
<b>(A) Use-based classification</b>				
Total	8.0	5.7	8.8	6.5
(1) Basic goods	11.0	6.0	12.2	7.2
(2) Intermediate goods	5.7	4.4	9.4	6.1
(3) Capital goods	15.4	6.8	15.8	7.3
(4) Consumers goods	4.7	5.6	5.9	6.2
(a) Durables	11.5	11.5	12.3	12.6
(b) Non-durables	4.2	4.9	5.7	5.7
<b>(B) Input-based classification</b>				
(1) Agro-based	3.7	4.1	5.9	5.1
(2) Metal-based	14.1	6.6	14.6	7.1
(3) Chemical-based	8.2	8.4	11.3	11.2

Source: Ahluwalia (1983)

It is often argued that the above industrial deceleration of all industry-groups except the consumer goods (durable and non-durable such as electrical goods, cars, and motor cycles.) was the result of rising inequality in consumer expenditure towards the late 1970s. As can be seen from Table 2.9, percentage share in consumer expenditure of the middle 40% of rural households had increased from 33.7 to 35.3, while that of the top 30% of urban households increased from 54.3 to 55.4 during the period from 1972–73 to 1977–1978. Both inequalities did, however, reverse during the early 1980s. The same trend can alternatively be evident from Table 2.10 which shows that inequality in consumer expenditure sharply increased in both rural area as a whole (with Gini coefficient increasing from 0.27 in 1973–1974 to 0.336 in 1977–1978) and urban area as a whole (with Gini coefficient increasing from 0.30 to 0.355 during the same period) before they reversed in 1983. Of the two types of consumer goods, durable and non-durable, the very high double-digit growth rates of consumer durables compared to relatively low single-digit growth rates of consumer non-durables during 1959–1979 (Table 2.8) (sectoral disarticulation) thus testify the fact that the impact of underlying inequitable income distribution between the rich and the poor in both rural and urban areas had certainly some bearing on the deceleration of the overall industrial growth through the demand factor (social disarticulation).

**Table 2.9** Distribution of household by consumer expenditure (%)

Year	Rural			Urban		
	Bottom 30%	Middle 40%	Top 30%	Bottom 30%	Middle 40%	Top 30%
1961–1962	14.7	33.2	52.1	12.9	31.4	55.7
1965–1966	15.1	34.3	50.6	13.6	31.9	54.7
1970–1971	15.4	35.1	49.5	13.7	31.8	54.5
1972–1973	15.4	33.7	50.9	13.8	31.9	54.3
1977–1978	14.3	35.3	50.4	13.4	31.2	55.4
1983	15.2	33.9	50.9	13.9	32.8	53.3

Source: Agrawal and Varma (1996, Table 4.12 based on Sixth Five-Year Plan 1980–1985 and NSS Report No. 319)

### 2.5.2 Widening Development Disparity among the States (1960–1980)

Part XI of the Constitution of India defines the division of function-areas<sup>50</sup> and financial powers between the federal government (the Centre) and the State governments in India. *Vertical* and *horizontal* imbalances are, however, common features of most federations including India. *Vertical* imbalances result when the States face shortage of financial resources raised from the sources assigned to them. *Horizontal* imbalances result across States due to factors including historical backgrounds, differential endowment of resources, and capacity to raise financial resources. Unlike most other federations, differences in the developmental levels in Indian States are very acute. In an explicit recognition of *vertical* and *horizontal* imbalances, the Indian Constitution embodies various enabling and mandatory provisions to address them through the transfer of resources from the Centre to the States under the category of tax-sharing (Articles 268 & 269), statutory grants-in-aid (Articles 275) and other grants and loans for any public purpose (Articles 282 & 293). Total transfers from the centre to the States as a percentage of a state's total expenditure increased from 42.7 in the First Plan to 53.9 during the Annual Plans, but then declined to 42.1 in the Fifth Plan before slightly increasing

<sup>50</sup>In the seventh schedule of the Constitution of India, there are three lists: Union List, State List and Concurrent List. The Union List consists of 97 areas (original) assigned to the Central government (such as defence, foreign affairs, communications, currency and coinage, and banking and insurance.). The state legislatures have exclusive authority to make laws in relation to 66 items (original) listed in the State List (such as police, public health, land, roads and bridges, agriculture and irrigation, forest and fisheries, and trade and industry.). In addition, there was a Concurrent List of 47 items (original) of common interest such as education, planning and social security, labour welfare, industrial disputes, electricity and newspapers for which the Parliament and state legislatures can both make laws. In fact, education has been transferred from the state to the *concurrent list* by the 42nd amendment to the Constitution of India in November 1976 during the State of Emergency declared by the then Prime Minister Indira Gandhi.

**Table 2.10** Inequality in consumer expenditure: 1960–1961 to 1983 (Gini coefficient)

Year	Rural	Urban
1960–1961	0.32	0.34
1965–1966	0.29	0.33
1970–1971	0.28	0.33
1973–1974	0.27	0.30
1977–1978	0.336	0.355
1983	0.297	0.325

Source: Agrawal and Varma (1996, Table 4. based on NSS Reports)

to 44.8 in 1979–1980 (revised). The States' fiscal dependence had thus remained in a narrow range between 42.1% and 53.9% of their total expenditures during 1951–80 (Table 2.11). It is also noteworthy that percentages of grants had been relatively stable within a narrow range throughout the period from 1951 to 1980. However, loans had constituted a significant part of the total transfers to the States and remained within a high range between 49.2% and 55.9% in the earlier Plans during 1951–1969, when their share in taxes had increasingly fallen. This early trend had certainly placed an unduly large burden on the States because it had accentuated their indebtedness.

Until very recently, two commissions—the *Planning Commission*<sup>51</sup> and the *Finance Commission*—were responsible for transfers of financial resources from the Centre to the States and Union Territories. One of their major goals in allocating central assistance to the States was balanced regional development. Both these *Commissions* had been the arenas in which interstate disputes over the allocation of resources used to be resolved by the use of formulas. While the *Finance Commission* operates through a more automatic, formula-based transfer mechanism, the Planning Commission had some limited option to allocate resources through discretionary loans and grants. For example, the prevailing method of allocating assistance to the states used by the *Planning Commission* was the so-called Gadgil Formula,<sup>52</sup> which provided for only 10% of 'central assistance to the states' in the Plans to be distributed according to backwardness.<sup>53</sup> As can be

<sup>51</sup>The *Planning Commission* has been replaced by the *National Institution for Transforming India* (NITI) Aayog (Commission) on 1 January 2015. The new body's acronym-based name 'NITI Aayog' means 'Policy Commission'.

<sup>52</sup>This had been noted in the *Sixth Five Year Plan: 1978–83—Draft* (p. 110). When the original Gadgil Formula for the distribution of central assistance for State Plans was approved by the National Development Council in September 1968, it was agreed that the requirements of Assam, Jammu and Kashmir and Nagaland should first be met out of the total pool of central assistance. The Gadgil Formula was first applied for the Fourth Plan (1969–1974). When the Fifth Plan was formulated, this list was extended to include Himachal Pradesh, Manipur, Meghalaya, Sikkim and Tripura, making eight states in all. It is only since 1980 that the share of special category states was predetermined at 30 per cent. In 1990, the number of special category states was increased to 10 with the inclusion of Arunachal Pradesh and Mizoram (WG-SFR 2012, p. 17).

<sup>53</sup>Brass (1982, pp. 233–34).

**Table 2.11** Transfer of resources from the centre to the states through different sources (Rs. Crores)

Plan and period	Share in Taxes	Grants	Loans	Total Transfers	Total Expenditures of State Governments	(4) as Percentage of (5)
	(1)	(2)	(3)	(4)	(5)	(6)
First Plan (1951–1956)	344 (24.0)	288 (20.1)	799 (55.9)	1,431 (100)	3,352	42.7
Second Plan (1956–1961)	668 (23.3)	789 (27.5)	1,411 (49.2)	2,868 (100)	5,846	49.1
Third Plan (1961–1966)	1,196 (21.4)	1,304 (23.3)	3,100 (55.3)	5,600 (100)	10,720	52.2
Annual Plans (1966–1969)	1,282 (24.0)	1,389 (26.0)	2,676 (50.0)	5,347 (100)	9,912	53.9
Fourth Plan (1969–1974)	4,562 (30.0)	3,831 (25.4)	6,708 (44.4)	15,101 (100)	28,551	52.9
Fifth Plan (1974–1979) <sup>a</sup>	8,337 (33.0)	8,135 (32.2)	8,810 (34.8)	25,282 (100)	60,081	42.1
1979–1980 (Revised)	3,346 (40.8)	2,254 (27.5)	2,593 (31.6)	8,193 (100)	18,272	44.8

Notes: (i) This table has been adapted from Bhargava (1984, Table 1) and (ii) Figures in parentheses are percentages of total

<sup>a</sup>The Fifth Five-Year Plan in fact terminated one year earlier on 31 March, 1978

seen from Table 2.12, there had been a long-term shift in the sources of funds transferred from the centre to the States through two Commissions. The Planning Commission distributed a higher percentage of the total resources transferred to the States prior to the Fourth Plan, but afterwards, the Finance Commission had a relatively greater part in distributing the resources to the States during 1969–1980.

In 1979, the Planning Commission, however, adopted the IATP (income adjusted total population) formula for a substantial part of plan assistance and utilised discretionary assistance for the benefit of the poorer states. And, the 1980 modification of the Gadgil formula has also assisted these states. A bias in favour of the relatively ‘backward’ states was a welcome development. However, an examination of the per capita expenditure on centrally sponsored projects on a state-by-state basis during 1974–1978 shows that the relatively developed states have already benefited more.<sup>54</sup> This can be evident from Table 2.13 which underlines the large area of disparities which existed in both 1960–1961 and 1979–1980 for all States. In 1960–1961, when the Indian development process had just gathered momentum, several States’ per capita incomes were below the All-India average of Rs. 306 (measured at current prices).

Among the States, Manipur had the lowest per capita income (Rs. 154) followed by Bihar (Rs. 215), Orissa (Rs. 216), Kerala (Rs. 259), Madhya Pradesh (Rs. 260),

<sup>54</sup>Bhargava (1984, p. 684).

**Table 2.12** Transfer of resources from the centre to the states through different sources (Rs. crores)

Plan and period	Finance commission	Planning commission	Other transfers	Total
First Plan (1951–1956)	447 (31.2)	880 (61.5)	104 (7.3)	1,431 (100.0)
Second Plan (1956–1961)	918 (32.0)	1,344 (46.9)	606 (21.1)	2,868 (100.0)
Third Plan (1961–1966)	1,590 (28.4)	2,738 (48.9)	1,272 (22.7)	5,600 (100.0)
Annual Plans (1966–1969)	1,782 (33.3)	1,917 (35.9)	1,648 (30.8)	5,347 (100.0)
Fourth Plan (1969–1974)	5,421 (35.9)	4,731 (31.3)	4,949 (32.8)	15,101 (100.0)
Fifth Plan (1974–1979) <sup>a</sup>	11,168 (44.2)	10,353 (40.9)	3,761 (14.9)	25,282 (100.0)
1979–1980 (Revised)	3,888 (47.5)	3,408 (41.6)	897 (10.9)	8,193 (100.0)

Notes: (i) This table has been adapted from Bhargava (1984, Table 2) and (ii) Figures in parentheses are percentages of total

<sup>a</sup>The Fifth Five-Year Plan in fact terminated one year earlier on 31 March, 1978

and a number of other States. Maharashtra was at the top (Rs. 409) followed by West Bengal (Rs. 390), Punjab (Rs. 366), Gujarat (Rs. 362), Himachal Pradesh (Rs. 359), and Tamil Nadu (334). These figures were all in current prices. Translated into indices (with All-India Average Per Capita Income = 100), the ranking of the States remained very much the same. But, these initial rankings of 1960–1961 had, however, changed over the successive periods to 1979–1980. Excluding smaller States and Union Territories, the range of disparity between the highest and the lowest indices has also grown steadily—from 63.4 in 1960–1961 to 112.7 in 1979–1980. It is often argued that due to ‘a significant element of innate dynamism present in Punjab, Haryana, Gujarat and Maharashtra’, these Northern States had experienced faster progress in per capita income. The progress in four Southern States—Andhra Pradesh, Karnataka, Kerala and Tamil Nadu—had been comparatively stable, although Tamil Nadu had faced a sharp decline between 1960–1961 and 1965–1966. The so-called North–South regional disparity in terms of these eight States’ indices used to be often noted in the political debate on unequal development. Among the remaining States, Bihar, Orissa, Uttar Pradesh and Madhya Pradesh had suffered a moderate decline, although the former pair had started with low indices and the latter pair had started with relatively higher indices.

Two States in the Eastern part of India—Assam and West Bengal—had lost ground moving down from 102.9 to 82.3 and from 127.5 to 101.1, respectively during the period from 1960–1961 to 1979–1980, although Assam had recovered a bit during 1978–1980. This moderate/sharp decline in the States of the Eastern part of India (including some of the new Eastern States) compared to the rest of India

**Table 2.13** Widening disparity among the Indian States: 1960–1961 to 1979–1980

State/Union Territory	Estimates of per capita net state domestic product (= State income) (at current prices)				Index with national (= All-India) Average per capita income = 100			
	1960–1961	1970–1971	1975–1976	1979–1980	1960–1961	1970–1971	1975–1976	1979–1980
<b>A. States</b>								
1. Andhra Pradesh	275	586	895	1136	89.9	92.6	87.4	89.4
2. Assam	315	539	789	1083	102.9	85.2	77.1	82.3
3. Bihar	215	402	661	795	70.3	63.5	64.6	60.4
4. Gujarat	362	829	1239	1658	118.3	131.0	121.0	126.0
5. Haryana	327	870	1333	1867	106.9	137.4	130.2	141.9
6. Himachal Pradesh	359	678	1078	1288	117.3	107.1	100.3	97.9
7. Jammu & Kashmir	269	548	928	1254	87.1	86.6	90.6	95.3
8. Karnataka	296	685	1005	1246	96.7	108.2	98.1	94.7
9. Kerala	259	557	892	—	84.6	88.0	87.1	—
10. Madhya Pradesh	260	484	781	877	85.0	76.5	76.3	66.6
11. Maharashtra	409	784	1385	2021	133.7	123.9	135.3	153.0
12. Manipur	154	396	807	822	50.3	62.6	78.8	62.5
13. Meghalaya	—	—	—	—	—	—	—	—
14. Orissa	216	482	715	843	70.6	76.1	69.8	64.1
15. Punjab	366	1030	1597	2278	119.6	162.7	156.0	173.1
16. Rajasthan	284	620	857	1011	92.8	97.9	83.7	76.8
17. Tamil Nadu	334	581	839	1274	109.2	91.8	81.9	96.8
18. Tripura	249	502	813	—	81.4	79.3	79.4	—
19. Uttar Pradesh	252	486	730	994	82.4	76.8	71.3	75.5
20. West Bengal	390	735	1120	1330	127.5	116.1	109.4	101.1
<b>B. Union Territories (UTs)</b>								
1. Delhi	668	1186	2018	2498	218.3	187.4	197.1	189.8
2. Goa, Daman & Diu	—	916	1615	2426	—	144.7	157.7	184.3
3. Pondicherry	—	844	1593	2747	—	133.3	155.6	208.7
<b>All-India (Per capita net national product at factor cost)</b>	<b>306</b>	<b>633</b>	<b>1024</b>	<b>1316</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Maximum disparity (Range)</b>								
Excluding Smaller States & UTs	194	628	936	1483	63.4	99.2	91.4	112.7
Including Smaller States & UTs	514	790	1357	1952	168.0	124.8	132.5	148.3

Source: IIPO (1982, Table III, p. 16)



seemed to have an irreversible path dependence effect in the coming years, unless sufficient economic and political measures are taken to counter this disparity. It is also noteworthy that high population density in the States of Uttar Pradesh, Bihar, Madhya Pradesh and West Bengal is an additional contributing factor for disparity.

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