The Recovery of India: Economic Growth in the Nehru Era

Author: Pulapre Balakrishnan (2007)

Introduction

1. This paper investigates the relationship between the policy regime and economic growth in India over the period 1950-64 which Pulapre Balakrishnan terms as "the Nehru Era". This spans the interval between the formation of the Planning Commission and the death in office of Jawaharlal Nehru.

2. Economic policymaking in Nehru era was relatively free of narrow political considerations, that is, the goals adopted were independent of economic vested interests. Since then, however, the leadership of India has not been able to maintain as much autonomy from sectional interests, economic and political. In this sense, the economic policy-regime of the time conveys a certain integrity with respect to the choices made, if not always in their implementation.

3. Hatekar and Dongre (2005) take on the entire 20th century when they search for a shift in the growth of the gross domestic product (GDP). It may come as a surprise to some that the most significant break of the century is found to be centred around 1950. If one looks at the relationship between public policy and economic growth in the Nehru era, it is expected to serve two purposes. First, as the period appears to mark a growth transition, we may get an idea of what factors drive growth. Secondly, as it was also a period of high state-directedness, it enables us to assess how, if at all, such intervention can facilitate growth and how it can hold it back.

Nehru-Mahalanobis Strategy

1. Nothing is more iconic of the economics of the Nehru Era and representative of the means adopted to pursue its goals than the "Mahalanobis model".

2. The model was intended to provide the analytical foundation for the project of raising the level of income via industrialisation already deliberated upon in the National Planning Committee of the Congress which was chaired by Nehru at the request of Subhash Chandra Bose in his capacity as the party president. For this reason it is also sometimes referred to as the Nehru-Mahalanobis strategy. This was a model to serve the end of rapidly raising the level of income through accelerating growth, as raising the level of income was considered the means to eliminating poverty.

3. Mahalanobis had conceived of an economy with two sectors, each producing capital and consumer goods, respectively. Being the model of a closed economy without government, their outputs would thus sum up to GDP or national income. The capital good enters into the production of the consumer good and of itself. Capital goods include items like buildings, machinery, and tools. Consumer goods are used by consumers and have no future productive use. Examples of consumer goods include food, appliances, clothing, and automobiles. It was assumed that a greater initial allocation of investment to the production of capital goods would leave the economy with a higher stock of the same in the future. With these capital goods being the physical counterpart of investment, a higher initial allocation to capital goods production

enables a higher investment in the future. As a result, the rate of growth of the economy would be higher in relation to the starting point. Now the planner's problem is to arrive at the share of investment to be allocated to the capital goods sector given the target level of income. The author has provided a description of the model and its logic. However, it is important when trying to understand the economic policy of the 1950s to recognise that the model was meant only as a guide to a strategy for industrialisation. Therefore, it is equally important to understand the practical aspects of the strategy.

4. At the heart of the Nehru-Mahalanobis strategy was a fast growing "heavy goods" sector. What are these heavy goods? They have been aptly described as "machine-building complexes with a large capacity for the manufacture of machinery to produce steel, chemicals, fertiliser, electricity, transport equipment, etc. The means of bringing about a fast-growing heavy-goods sector was to invest disproportionately in these machine-building complexes. It was implicitly recognised that as the sector was characterised by long gestation lags in the production of output the rate of growth inherent in the Mahalanobis model would be lower in the short-run than that which would result from a strategy of investing disproportionately in consumer goods production. However, the long-run rate of growth resulting from the Mahalanobis strategy of shifting the investment allocation towards heavy goods would be higher, even for the consumer goods sector, as it enhances productive capacity across the economy.

5. In a sense the underlying idea of the model is a kind of accounting. It estimates growth prospects based on current investment allocation, and chooses the allocation that maximises the rate of growth for any given investment outlay.

6. There was, however, a flaw in the model. As more or less an accounting scheme the model was exclusively a supply-side model. There was no recognition of a possible demand constraint to capital accumulation. A model based on the purely physical relationship between inputs and outputs made sense in the "command economy" where investment can be enforced by the government. Not so in India with a private sector that invests only in response to growing profits or its anticipation.