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Economic Policy Changes in India After Independence

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Abstract

In the 75 years since independence, the Indian economy has had many highs and lows. After surpassing the United Kingdom, which controlled India for 200 years, India is now the fifth-largest economy in the world. In order to stabilise the economy and enhance India's financial sector, significant modifications to the country's laws and regulations were implemented after 1947, which are covered in this essay. 'Economic reforms' refers to these important adjustments made to the economic policy.

This essay also discusses the origins of private entrepreneurship in India as well as the steps done to strengthen the sector and advance "ease of doing business" there. It also focuses on how private businesses have affected India's standing in the current state of the world economy. The paper's first section introduces the 12 Five-Year Plans from 1951 to 2017 as well as the major reforms carried out in India, such as the 1944 Bombay Plan, the 1969 nationalisation of banks, the 1971 repeal of the privy purse, the 1991 end of the licence raj, the 1991 New Economic Policy (LPG Reforms), the 2015 Black Money and Imposition of Tax Act, the 2017 implementation of the Goods and Services Tax (GST), and the 2016 implementation of demonetization. The second section of the essay emphasises India's strategy for formalising and reviving the economy, as well as, most crucially, for redefining governance and the new steps made for altering India's economic story.

Keywords

Private Enterprise, National Planning and Development, Economic Development, Economic Growth, Economic Policy, Economic Reforms, Development Economics, and Post-Independence India

India's first economic model was based on the idea that the government should come before private enterprise. The development strategy of Prime Minister Jawaharlal Nehru "envisioned the state as the dominant entrepreneur and financier of private enterprises." (Mint, 2019) Only a small proportion of Indians (less than a sixth) were read at the time of independence, and the country's economy was in a very precarious state. Because of British colonisation and the ensuing deindustrialization, the nation was impoverished. 2016 (Tharoor) According to the data, India's contribution to global revenue fell dramatically from 22.6% in 1700 to 3.8% in 1952. At 23.3% of global income, Europe's share was practically identical to that of India in 1700. (Kant, 2023)

Let's first comprehend the development paradigm of PM Jawaharlal Nehru by first understanding the 1944 Bombay Plan. A group of influential businessmen and technocrats who helped form the Reserve Bank of India (RBI) and Federation of Indian Chambers of Commerce and Industry (FICCI) in 1944 conceptualised a Plan of Economic Development for India. In addition, they helped the Congress fight for independence and served on the Viceroy's executive council throughout World War II (Deccan Herald, 2021).

The goal of the plan was to increase India's per capita income and level of living while tripling its GDP in 15 years. The main goal of the plan was to accomplish these goals during a five-year period in three leaps, much like the Nehru government's five-year plans following independence, which gave priority to agriculture, industrialisation, and the shift to a services economy. (2021, Deccan Herald)

According to research done by many scholars, it is believed that businessmen in India supported a government-dominated economy. Some people could disagree with the aforementioned remark. As it was created, India's business community required government engagement in all business-related activities and a comprehensive strategy for economic development.

The creation of industry for the production of capital goods and power was the "Bombay Plan's" key contribution to India's economic development. The industry was divided into two categories: basic goods and consumer goods. The basic goods category included power, mining, metallurgy, engineering, transport, and cement. The consumer goods category, which was also very important and shouldn't be overlooked, placed emphasis on the establishment of small-scale industries. (2018) (Desai, Sanjaya, & Baru) Other areas of concentration in agriculture were soil health, irrigation coverage, and boosting output through cooperative farming.

In addition to emphasising industrial and commercial development, the plan also sought to define a standard of living that went beyond financial means and took into account social factors like access to a balanced meal, decent shelter, clothing, and a quality education.

"The plan elucidated three principles underpinning their selection of an economic system, stating first that there should be enough room for individual initiative and enterprise to flourish; second that the community's interests should be protected by the establishment of adequate sanctions against the abuse of individual freedom; and third that the state should play a constructive role in the direction of economic policy and the development of economic resources." (2018) (Desai, Sanjaya, & Baru) (Kant, 2023)

In 1938, the National Planning Committee (NPC) was established and tasked to develop economic guidelines for India, a newly independent country. (Nehru, 1946) An endeavour to create an economic blueprint for India guided by the private sector that overlapped with the NPC of Congress was the planned Bombay Plan. The important distinction between the public and private sectors' roles persisted, nevertheless. (Kant, 2023)

The planning commission was established by the Indian government in 1950 to coordinate and monitor India's growth. The tasks included allocating resources, implementing, and evaluating five-year plans. According to the NPC of the Congress in 1938 and the Bombay Plan in 1944, which clarified the need for a central planning body to guide resources and investments, "the need for centralised planning was agreed upon by the private sector and the government alike." (Kant, 2023)

The Origins of Private Enterprise

History indicates that a small number of castes dominated the business world. Several villages and districts continued to be the exclusive province of trading, banking, and other business operations. (Kant, 2023) , According to "Gadgil," the trader-merchant class of 1950s urban India, as it is represented in the book "Made in India," had a high socioeconomic position but minimal political clout. In that setting, one-person and family-run enterprises were seen as important, and the majority of the families were able to amass sizable sums of money and resources via their entrepreneurial endeavours. It should be mentioned that even after amassing a substantial amount, their investments were primarily restricted to their residences and took the shape of jewels.

Records show that trade groups date back to the fifteenth century. The Gujarati merchants' system is the one that has the most documentation. Slow forms of conveyance were among the major concerns at the period, which had a severe impact on internal trade. Instead of being separated into huge, cohesive divisions, the marketplaces were divided into local regional ones. As it has been established, the business system at the time was decentralised and disconnected, and a large number of smaller traders and brokers were involved, managing the product selling and trading. Currently, many agricultural markets operate with a similar type of framework. Financing and brokerage issues have been important to traders, merchants, artisans, weavers, craftspeople, and others since pre-colonial times. In his book "Made in India," the author talks about the first banking institutions that were run by trader's organisations during that time and were focused on three tasks: first, money exchange because there were multiple different currencies in use in India; second, safely issuing bills of exchange. According to a network of correspondents, "the bigger banking houses typically had a Pan-India reach" (Kant, 2023) and their involvement in the governance finance industry was the third.

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Due to the effects of colonial policy and India's deindustrialization, the Indian industry faced major difficulties. India transitioned from being a net exporter of products for a significant portion of its history to becoming a net importer, where it had an advantage over industries like apparel and textiles (Kant, 2023). Following the onset of the Industrial Revolution in Great Britain, the commercial environment in India underwent a significant transformation. As stated, "it drove down the cost of transportation, steam-powered ships, and textile prices." Due to its declining competitiveness, India's industrialization was halted. According to the author of the book "Made in India," "Clingingsmith and Williamson argue that it was due to supply side issues and not the global price movements that Indian industry lost competitiveness" at the time. Another problem brought on by the declining competitiveness of the Indian industry after the fall of the Mughal Empire and natural disasters was political unrest.

Researchers have determined that the "colonial period" produced chances for private enterprise, leading to the emergence of new types of banking, management agencies, and chambers of trade. The Joint Stock Companies Act of 1857, which contributed to the development of the corporate sector and the system of managing agencies, is just one of the significant events that have affected this industry. This structure, which was abolished by the "Government of India" in 1970, was crucial in the growth of contemporary Indian enterprise.

The Five-Year Plans of India

The first five-year plan, introduced in 1951, placed a strong emphasis on agriculture and irrigation to make up for the losses in foreign reserves incurred by the importation of food grains. (2013) Krishna With an economic growth of 3.6%, which was significantly larger than the intended growth of 2.1%, the strategy was successful. The attainment of food, self-sufficiency, and price control made the 1951–1956 plan successful. The Harrod-Domar Model served as the foundation for the first government policy initiative under Nehru.

Based on the Mahabanobis model, the second five-year plan, which ran from 1956 to 1961, had as its main goal the fast industrialization of capital goods and heavy industries. The planning commission stated that the industrial policy of 1956 "followed the socialist pattern of the society, which meant that the basic criterion for determining the lines of advance must not be private profit but social gain and that the pattern of development and the socio-economic relations should be so planned that they result not only in appreciable increases in national income and employment but also in greater equality in incomes and wealth. Agencies guided by social purpose must make significant decisions involving production, distribution, consumption, and investment. (MOSPI, 2014)

While 4.5% was the desired growth, 4.3% was actually achieved. The second plan was only partly effective in several areas, such as a severe forex shortage that caused development goals to be scaled back and a 30% price increase.

The GDP of India ranged from 24% in 1700 to 16% in 1800 to 8% in 1900 to 5% in 1947. In a period of 200–250 years, India's GDP has decreased to 5% from contributing to a quarter of the world's GDP. (Kant, 2023)

The goal of the third five-year plan, which ran from 1961 to 1966, was to transform India into a "autonomous" economy. The agriculture sector was given primary focus in this plan in order to enhance output, exports, and industry. 5.6% was the expected target growth, while 2.8% was the actual growth. Due to continued hostilities with the neighbours (Chinese Aggression in 1962 and the Indo-Pak War in 1965), as well as a time of extreme drought in 1965–1966, the plan was unable to achieve its goals. As a result, the emphasis was shifted from agriculture to defence and development.

Due to the third plan's failure and the introduction of the "rupee devaluation" to promote exports and prevent an inflationary slump, the fourth plan was delayed by three years. The three successive annual plans, which sought to address the current problem and food scarcity, were centred on the agricultural industry.

The fourth plan, implemented by the administration of Prime Minister Indira Gandhi from 1969 to 1974, had two key goals: growth with stability and gradual attainment of self-reliance, with an emphasis on agricultural growth

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rates and family planning activities. The actual growth rate was 3.3% compared to the expected target growth rate of 5.7%. Due to several important difficulties that needed to be resolved at the time, this plan failed. (Ghose, 2017)

The 'Banking Reforms 1969' was one of the major initiatives at this period. The 'Nationalisation of Banks 1969' was primarily motivated by the need to create consistency through the consolidation of financial services. Following the adoption of nationalised financial services, the "No Monopoly" plan was to be implemented in this industry. "The term 'banking reform' is used to describe the nationalisation of banks. In order to satisfy the growing demand for bank nationalisation, India's sole female PM nationalised 14 banks in 1969. This action was taken due to insufficient banking sector activity and credit availability. This period saw the emergence of numerous banking financial institutions (BFIs) and non-banking financial institutions (NBFIs) in this industry.

The goal of eliminating "Privy Purse" was to further the notion of an inclusive India with equal rights for all people as well as to help the government balance its budget.A gift or payment known as the "Privy Purse" was given to the royal families of princely nations who were coerced into joining independent India in 1947. The Indian royal families were no longer exempt from the law and were required to pay taxes like everyone else as a result of this change.

The elimination of poverty (garibi hatao) and the achievement of self-reliance were the two key goals of the fifth plan, which ran from 1974 to 1979 and was likewise led by PM Indira Gandhi's government. The promotion of rapid growth and an equitable distribution of income were the primary components. The PM's 20-point programme was the emphasis after the emergency declaration in 1975. (MOSPI, 2014) The predicted target growth rate was 4.4%, whereas the actual growth rate was 4.8%. This strategy worked better than the prior one. In contrast to the Nehru Model, which the Janta government criticised, the two sixth plans from 1978 to 1980 focused on job difficulties. When the Congress administration retook power in 1980, it immediately began to implement a plan to address the problems of poverty and economic growth. (MOSPI, 2014)

The sixth plan, implemented from 1980 to 1985 under the leadership of PM Rajiv Gandhi, focused on boosting national income, advancing technology, and eradicating poverty through programmes like TRYSEM and NREP that were concerned with skills and employment. The predicted 5.2% target growth rate was exceeded by a growth rate of 5.7%. All aspects of this plan's implementation were successful. (2011) Aguiar

The seventh plan, which focused on food, work, and productivity from 1985 to 1990 and had an expected target growth rate of 5% and an actual growth rate of 6%, was also effective.

The "annual plan period" in 1991–1992 marked a departure from the typical five-year plans. The concept of "ending the Licence Raj" in India was mostly implemented by Dr. Manmohan Singh, who served as finance minister at the time. When the "Licence Raj" was ended in 1991, this action made it easier for private enterprises to establish themselves. In the past, gaining a licence to begin operations for establishing a new firm required the cooperation of 80 government businesses, and even after a formal set-up, there were several constraints to cope with, making the "doing business" component a challenging procedure in India.

According to studies by the International Monetary Fund (IMF), account deficits were a major contributor to the crisis. According to the paper, "Econometric evidence supports the claim that the current account deficits significantly contributed to the crisis. It appears that a cluster of external shocks contributed to a decline in investor confidence and rising debt-service costs, which in turn triggered a currency crisis. The calculations do indicate that the Indian rupee was overvalued during the 1991 financial crisis. (IMF, 2000)

The three key elements of the New Economic Policy of 1991 were liberalisation, privatisation, and globalisation (LPG). The concept of "liberalisation" included the following elements: "increased demand and competition; adoption of new technology; development of human resources and skills; and increased focus on customers." "Privatisation" addressed the aspects of supporting and fostering the expansion of private sector businesses, while "Globalisation" covered the issues of working with and conducting business with foreign organisations.

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The eighth plan, which ran from 1992 to 1997, was delayed by two years as a result of internal political unrest. Actual growth was 6.8% compared to the expected target growth rate of 5.6%. This strategy, which emphasised fiscal and economic changes, was also carried out successfully.

Growth with social justice and equality was a key component of the ninth plan, which ran from 1997 to 2002 and had a goal growth rate of 6.5% but an actual growth rate of 5.4%. Monitorable targets for the key development indicators were set in the tenth plan, which ran from 2002 to 2007, with an estimated target growth rate of 8% and an actual growth rate of 7.6%. These two strategies have a mediocre level of success. By the end of the tenth plan, India's economy had become one of the fastest-growing, according to observers.

Aiming for quicker and more inclusive growth, the eleventh plan from 2007 to 2012 had a projected growth rate of 9% and an actual growth rate of 8%. "The broad vision for the eleventh Plan included a number of interconnected components like rapid growth reducing poverty and creating employment opportunities, access to essential services in health and education, especially for the poor, extension of employment opportunities using the National Rural Employment Guarantee Programme, environmental sustainability, reduction of gender inequality, and others." (MOSPI, 2014)

The twelve-year plan, which ran from 2012 to 2017, focused on achieving the goals of quicker, more sustainable, and equitable growth. (2023, Rahul Gandhi's Office) The monitorable targets of the plan, as proposed by PM Manmohan Singh and Congress President Sonia Gandhi, consisted of 25 core indicators, where an 8% real GDP growth rate, a 4% growth rate for agriculture, and a 10% growth rate for manufacturing were all taken into consideration under the heading of economic growth. (Banerjee & Duflo, 2011) This strategy had a mediocre level of success. (Banerjee & Duflo, 2011)

Modi Administration 2014

The National Institution for Transforming India (Niti Aayog) was established following the election of PM Modi in 2014 and the beginning of his administration. With the understanding that strong States lead to a strong nation, Niti Aayog's duty was to "work towards fostering cooperative federalism through structured support initiatives and mechanisms with the states continuously." (Niti Aayog, 2023) A genuine and ongoing cooperation with the states was established in place of the one-way, center-to-state flow of policy that existed in the past. In this regard, India's planning process saw a progressive transformation. (MOSPI, 2014)

In the determination of annual plans and the transmission of plan funding to state governments after 2014, the "Ministry of Finance" was given the function of the "Planning Commission."

The new Smart Plans that were implemented with the inauguration of the new government were centred on "Ease of Living" and "Ease of Doing Business" (Prime Minister's Office, 2023). The beginning of the new paradigm in governance was emphasised by a number of key economic reforms. For the benefit of the populace, the use of digital tools was encouraged across all government platforms and processes. Single-window clearances made all government procedures easier to complete quickly thanks to online forms, which increased output and sped up the economy. Every Indian state had to prioritise the "ease of doing business" strategy. India's PMO, 2023 Flagship projects include "Make in India," "Startup India," "Production Linked Incentives (PLI) Schemes," "Attracting Foreign Direct Investments (FDI), "Goods and Services Tax (GST) 2017," "Insolvency and Bankruptcy Code (IBC) 2016," "Vibrant Gujarat" summits, "Focus on Micro, Small and Medium Enterprises (MSMEs)," and "Programmes like Aspirational Districts, Smart Cities for India (Gandhi, 2023), UDAN Aviation Scheme, National Infrastructure Pipeline (NIP), and investments significantly increased India's economic growth rate and continue to do so today.

The Black Money and Imposition of Tax Act, 2015 is a law passed by the Indian Parliament that imposes fines on revenue obtained by corruption, such as black money, concealed foreign assets, and income, and seeks to bring such income and assets that are currently kept outside of the country back home. 'Black Money' in this sense refers to Indian citizens' 'Undisclosed Foreign Income and Assets'.

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The GST went into effect in July 2017 thanks to PM Modi. The 'VAT' programme was introduced by the PM Atal government prior to GST. GST is a more straightforward tax system that created a single national market and aided the "Make in India" and "Ease of Doing Business" objectives. Increasing investments and employment prospects were also aided by the establishment of the GST. It removes the application of taxes at every stage of supply, which is one of the crucial factors. Because of the lower compliance costs, agriculture, trade, and industry all profit from this tax scheme, as do small businesses. (2023, unacademy)

The Goods and Services Tax is also referred to as GST. Indirect taxes like VAT, services tax, excise duty, and others have been replaced in India with the GST. It is a single domestic indirect tax law that applies to the provision of both goods and services throughout the entire nation. 20223 (cleartax)

PM Modi demonetized the Rs. 500 and Rs. 1000 banknotes in India in November 2017. Demonetization had both advantages and disadvantages. "Reducing the use of black money, increasing cash in the banking system, stopping the handling of fake currency, and reducing all possible finances for illegal activities" are some of the beneficial effects. The "demo" announcement was issued at 8 p.m. on November 8, 2017, to take effect at midnight, therefore the locals had a lot of challenges to deal with the money situation on such short notice. The increase in digital payments, cashless transactions, and bank account opening was one of the game-changing factors.

For the growth of Indian businesses and the economy, foreign direct investment (FDI) is an important source of financial capital. When international corporations invest in India, Indian businesses profit from these investments and grow. After 2014, the main goal of the Modi administration was to expand FDI inflows across several sectors. In 2020, Prime Minister Modi stated that estimates showed that "India had managed to attract 20% more FDI than it did in 2019" and that future growth in FDI was inevitable. It should be mentioned that FDI inflows into India totaled $74 billion in the 2019–20 fiscal year.

Start-up By assisting the founders and ideators with their business concepts, India sought to increase "Ease of Doing Business" (EODB). The EODB is a ranking system used by the World Bank to compare the performance of various countries as determined by the EODB indicators for each selected criterion. (2022, Times of India) Start-up India supported income generation in India and increased employment prospects there. In January 2016, Prime Minister Narendra Modi established it. The programme assisted persons in becoming more employable and business-sector interested. This programme covers everything from registration to moving on to the next stage, including "provision of financial assistance, easy access to government bids, having a better workflow, enhanced networking opportunities, better interacting and learning platforms, and one-stop solution." (2023, unacademy)

Conclusion

This essay sought to examine how each government since India's independence has worked to fulfil the country's goals. In order to continuously contribute to India's economic development, this article also examined how the business sector and private firms emerged in India. It was noted that throughout the span of 75 years, several government bodies with distinct ideologies and the backing of private businesses and other stakeholders developed their own set of plans and recommendations to advance India's economy. Some of them were able to accomplish these goals, while others failed to do so, but the "learning factor" for the unique problems that were common in India remained constant throughout. Some of these problems are still a concern, and we haven't yet developed any real ways to address them. India is a huge country that has made great strides from being devastated to celebrating the current development paradigm. Making a significant improvement in India requires extensive planning and on-the-ground implementation. The concepts and plans of the current administration have been successful, and the Indian economy is currently expanding at the fastest rate in the world. The Inclusive-Liveable India initiative seeks to achieve the goal of a $5 trillion economy by the year 2025 by maintaining this pace and order.

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