The Nehru Legacy*

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The spat between the BJP-Led government and the NDA over celebrations to mark Nehru's 125th birth anniversary must not divert attention from one important fact. There has been for around three decades now an explicit or implicit rejection of and a conscious or unconscious deviation from the Nehruvian economic vision across a broad spectrum of India's political and intellectual elite. This is true not only of those aligned with the Bharatiya Janata Party, its predecessor formations and organisations related to it such as the RSS, or to followers of Lohia, but of much of the Congress as well.

This broadening of the set of those who have distanced themselves from the economic policy thinking associated with Nehru has been supported with the argument that the Nehruvian strategy for India was a failure. It may be useful, therefore, to revisit the Nehru era and re-examine this assessment that has facilitated a shift away from what is described variously as a form of populism branded as 'socialism 'or as just a misplaced attempt at state intervention that created a "licence-permit Raj" pervaded by cronyism and corruption.

It must be noted that in terms of the conventionally used indicators of creditable economic performance—a combination of reasonably high GDP growth and moderate inflation—the Nehru era can hardly be considered a failure. In fact the first decade and a half after Independence (especially the years after 1956) that marked that era were among the best in post-Independence history when assessed in these terms. This was all the more creditable, considering that at Independence the new Indian government had inherited an economy that had witnessed near retrogression for a long period of time, with agricultural stagnation and deindustrialisation, which together had generated a vast and poverty stricken reserve of unemployed and underemployed labour.

Moreover, Nehru and his economic advisers did deliver on a number of objectives defined by their desire to take a few lessons on economic management from the theory and practice of central planning. These included ensuring some degree of investment coordination, deciding the level and allocation of investment based on a prior plan, and creating a large public sector to fill the gaps in infrastructure and capital-intensive industry that existed and were unlikely to disappear if investment decision-making was left largely to the private sector. Much effort and money was also invested in creating an indigenous scientific and technological cadre and an intellectual elite that can manage the administration and the technological requirements of a huge and diverse country.

Overall, the Nehru era was one in which India launched on a globally unprecedented economic and political experiment. Despite its geographical size, its large population, its social diversity and its extremely low level of per capita income, the post-Independence government under Nehru's leadership chose to pursue development based on a mixed economy within the framework of a parliamentary democracy. Given the circumstances of the time, this was a strategy that erred in the direction of economic and political balance, rather than towards excessive state intervention or laissez faire. There was no willingness to give the market mechanism an overwhelming role, because the experience during the colonial years had made clear that the “market” was by no means benign, but a weapon of domination that had benefited in particular the British state and British capital. Neither was there any thought of nationalising all wealth and establishing a command economy in which a centralised state agency coordinated investment and influenced distribution. The best economic minds from across the world, driven by the post-War obsession with reconstruction and development as means to an enduring peace, came to India to study and participate in this remarkable experiment.

The elements of failure in the Nehru era lay elsewhere. First, there is the fact that the growth trajectory on which the Nehruvian strategy had placed India could not be sustained. No sooner had Nehru left the scene and India had experienced the two consecutive bad harvests of the mid-1960s, the country ran into a balance of payments problem, had to devalue the rupee, and look to the Bretton Woods institutions for balance of payments support. That crisis precipitated a long period of close to 15 years when Indian industry went into a phase of secular stagnation. Compared with other developing countries such as South Korea, India seemed caught in a low-growth trap.

As a result, even after six-and-a-half decades, the promise of successful industrial development has remained unrealised. The most obvious indicators of that are the inadequate diversification of India’s production structure away from agriculture to industry, and the rather premature and rapid diversification into services that has occurred in recent decades. By 1985, industry contributed 45 per cent of GDP in Brazil, 43 per cent in China, 26 per cent in India, 36 per cent in Indonesia, 39 per cent in South Korea, 39 per cent in Malaysia, and 32 per cent in Thailand. Diversification of production towards industry was much more successful in other similarly placed developing countries than in India.

The second indicator of failure was the evidence that the effort of the interventionist regime to address asset inequality and curb industrial monopoly clearly failed. This was recognised in a range of official reports such as the P.C. Mahalanobis Committee Report on the Distribution of Income and Levels of Living (1964), the Monopolies Inquiry (K.C. Dasgupta) Commission Report (1965), the Hazari Committee Report on Industrial Planning and Licensing Policy (1967) and the Industrial Licensing Policy Inquiry Committee (Dutt Committee) Report (1969).

The third was the failure of the strategy to resolve India’s external vulnerability, resulting in the erosion of the huge Sterling reserves that India had accumulated with the Bank of England during the Second World War (as payment for India’s contribution to the war effort) and was transferred to India after Independence. Those reserves were exhausted by the mid-1950s, resulting in balance of payments stringency that then exploded in the form of the mid-1960s balance of payments crisis.

Finally, there was evidence at the end two decades after Independence that the battle against deprivation was more lost than won. Even today, for example, a quarter of world’s hungry live in this country, it hosts about two fifths or more of children less than the age of 5 who are malnourished, and it has an infant mortality rate which is double that of Indonesia’s and equal to that of a country like Haiti.

The reasons for this failure did not really lie in the nature of the strategy itself. Rather it was because a number of prerequisites needed to ensure the success of the strategy, and were clearly recognised in the policy documents of the time, were not actually put in place. Two mutually reinforcing and interrelated contradictions, in particular, structurally limited the developmental potential of the system. To start with, despite talk of land reform, of providing "land-to-the-tiller", little was done to attack and redress asset and income inequality in rural India. As a result, the large mass of peasantry had neither the means nor the incentive to invest, since they were faced with insecure conditions of tenure and could retain only a small share of the output they produced. The prospect of increasing productivity and incomes in rural India, which was home to the majority of its population, was therefore limited. The absence of any radical land redistribution also meant that India remained food insecure and the domestic market, especially for industrial goods remained socially narrowly-based, even though the Nehruvian strategy had emphasised growth based on the domestic market.

Under these circumstances, the growth of the market came to depend on State action. The State provided domestic capitalists with a large once-for-all market for manufactures by widening and intensifying protection and displacing imported goods from the domestic market. It also sought to expand that market through its current and capital expenditures and it supported investment by the domestic capitalist class through the creation of a number of development banks.

As noted, this strategy did pay dividends during the decade-and-a-half immediately following Independence. By the mid-1960s, however, not only was the once-for-all stimulus offered by import substitution exhausted, but the ability of the State to continue to provide the stimulus to growth was also undermined by the second of the contradictions characterising the process of development. While the State within this regime had to maintain rising expenditures in order to keep the domestic market expanding, it was unwilling, for fear of alienating the powerful, to mobilise through taxation the resources need to finance those expenditures. This contradiction manifested itself in a fiscal crunch, under which expanded public spending financed with borrowing resulted either in inflation or an external deficit or a combination of the two. Forced to avoid that after the crises of the mid-1960s, the government had to limit and withdraw from its proactive role. As a result, the regime was engulfed in a deepening crisis that precluded economic dynamism.

Given this crisis, what was needed was to go back to the drawing board and seek out new measures to implement a strategy that in itself was remarkable. There was one difficulty, however. Central to any effort at economic renewal had to be an effort to redress asset and income inequality: attack land monopoly through land reforms, and reverse the control over resources in industry and finance that were worsening asset and income inequality. Doing that would have not only helped expand the domestic market, mobilise addition resources for public spending and revive growth, but also win the Congress the political legitimacy it had gained from its leadership of the freedom movement but was losing because of its failure to deliver on the promises it made at Independence.

The Congress under Indira Gandhi did recognise this imperative. But its efforts at making the structural changes for revival, though significant, were far from adequate. Among the noteworthy measures that the then government adopted were the effort at trying to curb the power of domestic and foreign capital through the passage of the Monopolies and Restrictive Trade Practices Act in 1969 and the Foreign Exchange Regulation Act in 1973, and more importantly by the nationalisation of 14 major banks in 1969, which when under private hands were the means by which a large part of the nation's savings were appropriated for their use by the big business groups. But this effort did not go far enough. This was partly because the economic and political power of India's rich had increased considerably since Independence. But it was also because the Congress had lost its vision as a Party, was riven with contradictions, and had lost its links with the mass it had mobilised during the freedom movement, which could have given it the social sanction and political backing to confront the powerful.

Unable and unwilling to do the needful to revive the Nehruvian agenda, the Congress too was looking for softer options that could signal renewed economic governance. Like in many other developing countries the option chosen was one of relying on and leveraging foreign capital to drive growth based now on foreign markets, rather than the domestic market. The Nehruvian trajectory, informed by India's experience under colonialism, was premised on winning economic independence from foreign capital. The option that was chosen by the Congress, especially since the 1980s, amounted to turning its back on that legacy.

This decision of the Congress encouraged an elite attack on what came to be called Nehruvian economics, support by interests aligned with international capital. That attack gained strength from a changed international economic environment, with substantially enhanced cross-border flows of foreign capital seeking new avenues for investment in the so-called "emerging markets". The "opportunity" ostensibly offered by those potential flows provided the basis for a shift towards liberalisation of trade and foreign investment policies and a greater reliance on foreign debt. Interestingly, the balance of payments crisis that the turn to such policies during the 1980s precipitated in 1991, resulted not in a halt to this reversal of the Nehruvian agenda, but to an intensification of liberalisation. The private sector was given free reign. The State was downgraded from leader and regulator to facilitator of private sector growth. Foreign capital, once viewed with a sceptical eye, was now embraced. And India too began a tempestuous affair with foreign finance capital. The result has been a huge increase in inequality and growing economic vulnerability, and only a brief honeymoon with growth.

What is important to note that all of this was initiated and pursued largely under the Congress which still "owns" that strategy. So much so that even when the much more right-wing NDA governments opted for new measures of liberalisation and took credit for "reform", the Congress was quick to claim that this was merely the implementation of an agenda it had laid out. The difference in economic policy between the BJP and the Congress is largely that while the former (with much help from the RSS) uses a communal platform to garner voter support, the Congress still has to rely primarily on welfare measures (such as the NREGS or the Food Security Bill), which too it pursues hesitantly.

How then does one read the eagerness of the Congress to celebrate its Nehruvian tradition? It is partly to use that tradition and its leadership of the freedom movement to win political legitimacy, even if it has rejected the essentials of a Nehruvian economic trajectory that remain unimplemented. It also has to do with giving legitimacy to its own leadership, that remains at the top not because it has mobilised mass support through activism, but because of its Nehruvian lineage.

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