

MODERNIZING INDIA I:
The Long View

By

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I have recently completed a revision and abridgment of my book “The Hindu Equilibrium”. As it now covers the whole of the 20th century, it provides a wide lens to view how India has sought to come to terms with modernization after its nearly three centuries encounter with the West. In this series of columns I want to examine many aspects of this process, to assess how far it has succeeded and what remains to be done.

It should be noted, as I have emphasized in previous columns that, there is a distinction between modernization-which entails a change in material beliefs, and Westernization- which entails a change in cosmological beliefs about the ‘way one should live’. As I have also emphasized modernization does not entail Westernization- as the shining example of modern Japan shows.

As a starting point, it is worth noting that, like China and unlike Japan, India- rather like Islamic countries today- resisted the changes in its ancient material beliefs that modernization entailed, wrongly believing with Gandhi that; modernization entailed Westernization. Fitfully, and under the influence of the British Raj, parts of the economy and society were modernized during the second half of the 19th century of *laissez-faire* and free trade, and some of the traditional literary castes also embraced Westernization. But the process of modernization was scuppered when, partly under protectionist pressures from Lancashire and the exigencies of Imperial finance in a country where Westernization had led to the rise of a nationalist movement, the British departed from the twin policies of free trade and *laissez faire*- which as we shall see in a subsequent column- had led India to be a pioneer of Third World industrialization, based on domestic capital and entrepreneurship and imported technology. The introduction of a revenue tariff and UK labour laws in the late 19th century led to a near century of creeping and after Independence galloping *dirigisme*, which damaged India’s growth prospects and the hopes of alleviating its ancient scourge of mass poverty. The breakdown of the global economy for the half -century from the First World War further eroded the incipient integration of India in the world economy, which had occurred during the British Raj. Beginning with the economic reforms of 1991 India, at last, seems to have turned its back on these near century of ‘inward looking’ policies, so that on a long view it seems to back at where it left off at the end of the 19th century.

Because of the research of Alan Heston (in the *Cambridge Economic History of India*) and S.Sivasubramonian (*The National Income of India in the Twentieth Century*) we now have a fair quantitative picture of the performance of the Indian economy. The table summarises the per capita income (at 1948-49 prices) for various dates from 1868 to 1999-2000, a period

of over 130 years- as well as the population in these years. The second half of the table gives the average growth rates of per capita income, population and national income for the whole of the 131 years and for various sub periods.

From this it can be seen that, over these 130 odd years, per capita income has more than trebled, population has risen nearly five fold and national income by eight times. This in itself shows that the ancient economic stagnation with cultural stability that I had characterized as the Hindu Equilibrium seems to at last to have been broken. But as the performance during the various sub periods shows this has been largely because of the economic performance of the last two decades.

Looking at these sub periods, the first from 1868-1900 saw India's partial integration into the world economy under the Raj and the beginning of industrialization, to be discussed in a subsequent column. National income, instead of stagnating as nationalist historians had maintained, grew modestly at an average rate of 1.1% p.a. The growth was fastest between 1870-1890, followed by large fluctuations in output. As population growth was fairly low, there was a modest rise in per capita income of about 0.7% p.a. during this period.

The second period from 1900 to 1945 saw the breakdown of the global economy, and the start of the population explosion in India. This led to a progressive deceleration in the growth of per capita income between 1902 and 1930 and a decline in the last fifteen years of British rule. Since 1920 it was the rise in population (growing at 1.22 %p.a.) which led to this declining trend, as output growth was fairly high between 1920 and 1930. Over the whole of the 45 years, per capita income virtually stagnated with output growing at just above 1% p.a. (the same rate as in the first period), and with population growing at 0.8%p.a.

The third period 1950-1980, marks the heyday of the planning era. This period saw a marked increase in investment particularly in infrastructure -which had been difficult for an embattled British Raj to finance. This, together with a marked rise in the agricultural growth rate- to be discussed in a subsequent column- led to a step change in the growth rate of output which grew at an annual average rate of 4.5% p.a. during this 30 year period. But as the population explosion -which began in the 1920's- matured, population growth at an average rate of 3% p.a. ate into this rise in output so that per capita income grew at only the modest average rate of 1.5% p.a.

The fourth period from 1980-1999, saw a marked departure from what the late Raj Krishna had characterized as the Hindu rate of growth. The partial economic liberalization undertaken by the Rajiv Gandhi government in the mid 1980's and the more substantial Narasimha Rao- Manmohan Singh economic reforms in 1991, boosted the rate of growth of national income, which grew at an average rate of 6.8% p.a. over these last twenty years of the millennium. As with the 'demographic transition' (to be discussed in the next column) population growth slowed to an average rate of 2.3% p.a. over the period, per capita income showed a substantial rise- growing at the average rate of 4.5% p.a., which for the first time for millennia began (as shown in an earlier column) to make a marked dent on India's mass structural poverty.

If India can now complete the unfinished business of fully integrating in the global economy – also to be discussed in future columns- there is no reason why this more recent growth

performance cannot be improved upon. This will allow Nehru's pledge on the eve of Indian independence "to wipe every tear from every eye" to be finally redeemed.

TABLE

India's Economic Performance : 1868-2000

<u>Year</u>	<u>Per Capita Income</u> (at 1948-49 prices- Rs.)	<u>Population</u> (million)
1868	176	209
1900	213	238
1945	244	319
1950	221	359
1980	318	679
1999-00	602	991

Average Annual Growth Rates (per cent per annum)

	<u>1868-200</u>	<u>1868-1900</u>	<u>1900-1945</u>	<u>1950-1980</u>	<u>1980-2000</u>
per capita income	2.6	0.7	0.3	1.5	4.5
population	3.6	0.4	0.8	3.0	2.3
national income	6.2	1.1	1.1	4.5	6.8