

## **Quadrant I– Notes**

**Programme:** Bachelor of Commerce (Second Year )

**Subject:** Economics

**Paper Code:** CEG104

**Paper Title:** Indian Economy

**Unit:** Policy Regimes , Growth Development and structural change

**Module name :**Major Industrial Policy Under planning: Nehru Mahalanobis Model

**Module No:** 19

**Name of the Presenter:** Asst. Prof. Ivy Simoes

---

Prof.P.C. Mahalanobis prepared a growth model :

To achieve a rapid long- term rate of growth it would be essential to to build-ing of basic heavy industries. Mahalanobis strategy of development emphasising basic heavy industries which was adopted first of all in the Second Plan. It continued to hold the stage in Indian planning right up to the Fifth Plan which was terminated by the Janata Government in March 1978, a year before its full term of five years.

The rate of growth of investment in the economy not with rate of growth of savings as is usually considered by the economists but with rate of growth of output in the capital goods sector within the economy. The growth of capital goods sector in turn depends upon the proportions of total investment allocated to the capital goods sector and output-capital ratio in the capital goods sector.

Given the output-capital ratio in capital goods sector (i.e. heavy industries), he proves that if the proportion of total investment allocated to the capital goods is relatively greater, the rate of growth of output of capital goods will be greater

Hence, given the Mahalanobis assumption, the future rate of growth of investment in the economy will be greater.

According to Mahalanobis, rate of economic growth depends upon the capital formation or real investment. The greater the rate of capital formation, the greater the rate of economic growth. The rate of capital formation in an economy, according to Mahalanobis, depends upon the capacity of the economy to produce capital goods. Thus, according to him, given a closed economy, the rate of real capital formation depends not upon the savings of the economy but on the capacity to produce capital goods.

Even if the rate of savings was substantially raised in order to accelerate the rate of capital formation, it would be futile, for required capital goods would not be there if there is a lack of capacity to produce capital goods. This is based on closed economy assumption. Thus, according to him, if large investment is not made in the basic heavy industries producing capital goods, the country will forever remain dependent on foreign countries for the imports of steel and capital goods like machinery for real capital formation.

### **Employment Generation in Mahalanobis Model:**

Productive employment can be increased only by increasing the production of capital goods like steel, electricity, machinery, fertilizers, etc.

Whether it is increase in employment in the industrial sector or in the agricultural sector it cannot be achieved without increasing the output of capital goods.

The only way of eliminating unemployment in India is to build up a sufficiently large stock of capital which will enable all unemployed persons being absorbed into productive capacity. Increasing the rate of investment is, therefore, the only fundamental remedy for unemployment in India.

Thus, in Prof. Mahalanobis' opinion, not only to achieve the objective of rapid economic growth but also to achieve the goal of full employment, it is necessary to accord high priority to capital goods industries in the development strategy.

## **Import-substituting Industrialisation**

To bring about a rapid development of the industries producing investment goods in the beginning by increasing appreciably the proportion of investment in the basic heavy industries.

As the capacity to manufacture both heavy and light machinery and other capital goods increases, the capacity to invest by using domestically produced capital goods would also increase steadily and India would become more and more independent of the imports of foreign machinery and capital

Mahalanobis Growth Model and Development Strategy in India's Five-Year Plans: The Five year Plan did not propose any strategy of development, it laid emphasis on stepping up the rate of saving and therefore investment and growth by maintaining the marginal rate of saving at a substantially higher level than the average rate of saving.

Although it did not present any explicit formulation of development strategy regarding the pattern of investment its emphasis was on agriculture, irrigation, power and transport aimed at creating the base for more rapid industrialisation of the economy in the future. Second Five Year Plan, was on Mahalanobis growth model, proposed an explicit strategy of development which gave top priority to basic heavy industries.

The objectives of rapid rate of economic growth and employment generation but also the aim of self-reliant and self-generating economy were sought to be achieved Identifying under-development with dependence on agriculture and industrial growth especially the development of heavy industries as the core of development underlined the approach and strategy of the Second Five-Year Plan.

In the Third Plan, as in the Second, the development of basic industries such as steel, fuel and power and machine building and chemical industries is fundamental to rapid economic growth.

These industries largely determine the pace at which the economy can become self-reliant and self-generating." Though, "to achieve self-sufficiency in food-grains and increase agricultural

production to meet the requirements of industry and exports” was stated to be one on the objectives of the Third Plan

Therefore, the concern for food and agriculture in the Third Plan appears to be mere verbal and was not built into the strategy of development.