Revision Notes

ECONOMICS

Indian Economy 1950–1990

Topics

- Economic System
- Economic Planning
- Agriculture
- Industry and Trade

Economic System

An economy consists of the economic system of a country or region in terms of the production and consumption of goods and services. Three types of economy:

1. Capitalist economy

- Consumers and producers are the two vital elements of an economy.
- Individuals are free to own and control their economic resources.
- Everyone is independent to choose his or her own business, profession and occupation.
- Capitalist economy is also known as free-trade economy.

2. Socialist economy

- Socialist economy is an economy which is owned and controlled by society.
- Economic resources are owned by society and are used in the public interest.
- All important decisions are taken by the government.
- Individuals in the socialist economy do not have the right to own private properties.
- The economy is managed and controlled by the Planning Commission, the central authority.
- Income inequality is the least.

3. Mixed economy

- Mixed economy is a mixed form of socialist and capitalist economy.
- Certain economic activities are fully owned and controlled by the government.
- All the economic activities are not allowed by the government.
- Private and public sectors co-exist in the economy.
- India has adopted a mixed economy.

All kinds of economic systems face central problems. This is because it is not possible for any economy to produce an unlimited variety of goods with limited resources. Central problems include problems with decision making about

- What to produce?
- How to produce?
- For whom to produce?

Capitalist Economy	• Free play of the market forces • Maximisation of profits • Promotes self interest and thus it leads to economic growth • The poor sections of the society suffer from deprivation as they ignore social interest
Socialist Economy	• Decisions taken by the government • Collective interest of the society and it leads to growth with social justice • Consumers purchase the goods offered by the government as there is no choice to the consumers
Mixed Economy	• Free play of the market forces and control by the government • Maximisation of profit and social welfare • Both private and government sectors co-exist to promote both self interest and social interest

Economic Planning

During the period from 1950 to 1990, the ***unemployment rate was high*** and the **per capita *income*** and ***Gross Domestic Product were low***. The industrial sector was not developed, and ***Indian handicrafts were ruined*** by the colonial government. The agricultural sector was in a ***backward and stagnant stage.*** Hence, India opted for planning to fight against backwardness and to start economic development.

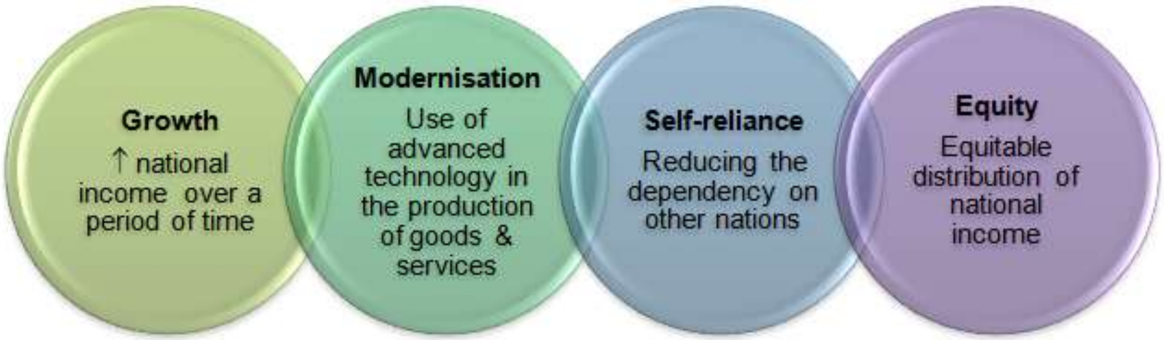
- India ***opted for socialism*** as Indian leaders were motivated by the success of Soviet Union's planning.
- Indian planners were well aware of the ***shortage of private capital and lack of incentive for the private sector*** to function in the social sector.
- It was planned to adopt a socialist idea with an emphasis on the ***public sector along with encouragement of contribution*** from the ***private sector*** in non-priority industries through a democratic set up.
- ***Comprehensive planning*** for the country was made by the government with ***specific objectives of five-year plans.***
- Hence, planning was initiated to make the ***public sector to work within the basic economic framework***, and ***private sector firms were encouraged*** towards economic growth.

A plan ***specifies the set of objectives to be achieved within a specified period of time.*** It shows the means and ways to allocate available resources in an optimum manner in different developmental activities of a country. The duration of plans in India is of five years and is called a ***five-year plan***. The first five-year plan was introduced in ***April 1951***.

❖ **Free play of market forces**

No government interference in the market forces of demand and supply

In India, there are limited resources to fulfil unlimited wants. So, it was essential for planners to have specific goals for a specific period. Planners had to determine specific and general goals to allocate scarce resources in an optimum manner. ***Goals are the ultimate targets to ensure successful plans.*** The goals of five-year plans were growth, modernisation, equity and self-reliance.

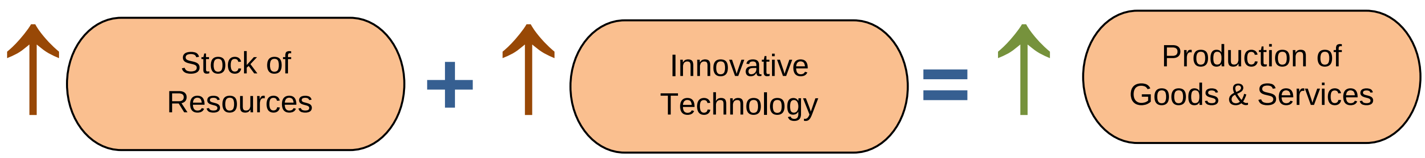


Planning objectives

1. Growth

- Growth refers to ***an increase in the level of national income over a period of time***.

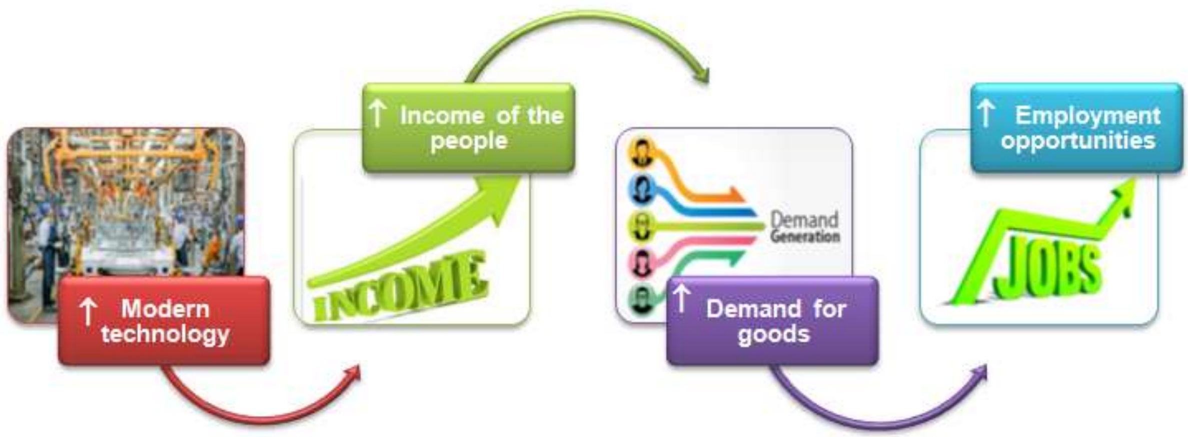
Increase in the countries capacity to produce the goods and services within an economy



- ***Flow of goods and services*** must consistently ***increase,*** and therefore, the ***standard of living of people*** will ***increase*** over a period of time.
- When an economy grows, ***structural transformation*** occurs.
- Structural transformation implies ***decrease in economy's dependence*** on the ***agricultural sector***, and the ***share of the industrial and service sectors*** in the total GDP will ***increase*** over the years.
- ***Growth*** in the performance of the ***service sector*** with higher contribution to the total GDP is an indication of ***economic development***.

2. Modernisation

- Modernisation is the ***use of advanced technology*** in the production of goods and services so that productivity can be increased.
- It does not have any negative impact on employment generation. In fact, ***modernisation and employment generation go hand in hand***.
- Hence, ***the production of goods will be increased to meet the demand of people resulting in generation of employment opportunities in the economy.***
- Thus, modernisation as a planning objective does not create contradiction in the light of employment generation.



3. Self-reliance

- Self-reliance is reducing or eliminating the dependency on other nations, i.e. ***preventing import of goods from other nations and encouraging producing those goods domestically***.
- It is ***essential for a developing nation*** like India to follow self-reliance as a planning objective.
- This is because at the time of independence, India was completely dependent on foreign countries for food, technology and capital goods which ***affected India's sovereignty adversely***.
- This led to ***foreign government interference*** in Indian internal policies.
- So, India adopted the following ways to become self-reliant:

India aimed at self-sufficiency in food grains

↑ share of the industrial sector in GDP

Growth of domestic production

Fall in foreign aid

Fall in dependency on imported goods

4. Equity

- Equity refers to ***equitable distribution of the national income***.
- One of the important objectives of planning is to get ***stable growth with equity*** in the economy.
- For every nation, it is essential to have ***growth along with equity***.
- If there is only ***growth (without equity)*** in the economy, then it means that ***everyone is not enjoying the benefit of growth***.
- In this regard, planners have to ensure that the ***prosperity of economic growth should reach all the people.*** Individuals should be able to fulfil their basic needs of food, house, education and healthcare.
- The government should ***ensure appropriate allocation of wealth*** among the people to reduce economic inequality.
- So, ***'growth with equity' is a more rational and desirable objective*** of planning for a nation.

❖ **Growth and Development**

Growth	Development
Refers to a sustained increase in GDP over a period of time which raises the standard of living of the people.	Refers to growth with equity along with structural change in the economy.
Brings quantitative changes, i.e. increase in level of production in an economy.	Brings both quantitative and qualitative changes, i.e. increase in the level of production along with the improvement in the technology and standard of living.
Is an automatic process.	Is the outcome of planned activities.

Agriculture

The policy makers of independent India dealt with issues related to ***'no growth and no equity'*** during colonial rule. They introduced land reforms and promoted the use of high-yielding variety (HYV) seeds in agriculture.

Need for land reforms

Zamindars were owners of the land and collected rent from cultivators without any contribution to improve of the farm

1. Land revenue system

Lack of irrigation facilities and technology advancement- the production of the agricultural sector was solely dependent on the monsoon

2. Low productivity

Sub-division and fragmentation of agricultural holding- adoption of advanced technology in the agricultural sector was very difficult

3. Landholding size

Types of land reforms

Regulation of rent

- All the ***states enacted laws*** to determine the rent payable by tenant cultivators.
- Rent structure varied between ***30% and 40%*** of produce in each state.

Landholding ceiling

- Limit was set for individuals to own a ***maximum size of land***
- Surplus land can be ***redistributed*** among landless cultivators and small farmers
- ***Minimum limit*** will prevent them from holding below the minimum size of land

Land consolidation

- To prevent the segmentation and sub-division of land holding
- First initiated in Punjab by converting various small parts of land holders into one plot
- To bring the ***scattered and fragmented land into one big piece*** and helped farmers to use the same for productive purposes.

Abolition of intermediaries

- ***Ownership of land*** will motivate cultivators to make improvement in agricultural production with lot of efforts and investment.
- ***200 lakh tenants*** came into direct contact with the state government; about ***173 million acres*** of land were taken away from zamindars and given to landless cultivators

Green Revolution

- At the time of independence, a large chunk of farmers were ***dependent on the monsoon*** because of which they faced innumerable problems in farming activities.
- ***Technology and machinery*** used in farming were obsolete which resulted in low agricultural productivity. ***Famines*** affected agricultural productivity in the 1940s.
- Indian agriculture suffered from ***low productivity of food grains*** as more emphasis was given to cash crops during the colonial rule.
- This resulted in the ***shortage of food grains*** in India.
- Landlords and lenders exploited farmers because they were dependent on landlords and rural money lenders to meet their ***credit requirements***.

Stagnation in agriculture was broken by the **Green Revolution**. It refers to ***sustained increase in the production of food grains***. This revolution was made possible by using HYV seeds, fertilisers, pesticides and irrigation facilities.

❖ **<u>High-yielding variety seeds</u>**

- Useful in ***increasing the production of food grains*** and are also known as miracle seeds.
- Use of HYV seeds requires ***regular supply of water, use of pesticides and fertilisers.***
- Hence, farmers require ***proper irrigation facilities and necessary financial support*** to consume fertilisers and pesticides to obtain the benefit of HYV seeds.

Benefits of the Green Revolution for farmers

Subsidies to farmers

A subsidy is a direct or indirect monetary assistance granted by the government for production activities. Economists have different views on whether subsidies encourage farmers to use new technology or are a huge burden on government finances. For and against points highlighting farm subsidies in India:

Usefulness of subsidies	Against subsidies
• Subsidies help in ***encouraging farmers*** to use new and innovative technology.	• Once technology is widely accepted, the government should stop providing goods at subsidised rates.
• In India, more than 50% of the farmers are poor and cannot afford new technology in their farming activity. So, the government can help them by providing subsidies.	• Subsidies are provided to benefit farmers, but it has been observed that the fertiliser industry has benefited others more than farmers.
• Abolishment of subsidy will violate the goal of equity because it raises differences between poor and rich farmers in India.	• Also, farmers from prosperous regions benefited from subsidies more than farmers from poor regions.
• Application of new technology in farming will increase the total output of agricultural products in developing nations.	• The fertiliser subsidy should not be continued as it failed to serve the target group.

However, subsidies help farmers to cope with advanced technology and higher productivity. Government planning is required to target farmers who need financial assistance and avoid the wastage of resources which increase the burden of the government.

Industry and Trade

At the time of Independence, the Indian economy was backward and underdeveloped. During the planning period, the public sector was given a leading role in industrial development because of the following reasons:

1. **Lack of capital: Private entrepreneurs *lacked capital for setting up industries as a large amount was required.*** Thus, the government took the responsibility of developing industries in the economy.
2. **Lack of incentive:** The Indian market was comparatively small which ***discouraged Indian industrialists to invest in major projects (even though they*** had sufficient capital to invest). Thus, the government promoted the industrial sector.
3. **Development of India on socialist base:** Indian planners wanted to ***develop the Indian economy on a socialist base, so they focused on government-funded*** major projects.
4. **Social welfare:** In India, there were certain projects in which the profit margin was negligible. Thus, the private sector was not interested in such projects and it was only the ***public sector which could bring the balanced regional growth with the establishment of government units in the backward areas.*** This move could increase the employment and income of the people.

Industrial Policy Resolution (IPR), 1956

The Industrial Policy Resolution (IPR), 1956, emphasised on the ***expansion of the public sector, development of heavy and machine building industries, ownership and control of the private sector and establishing the cooperative sector***.

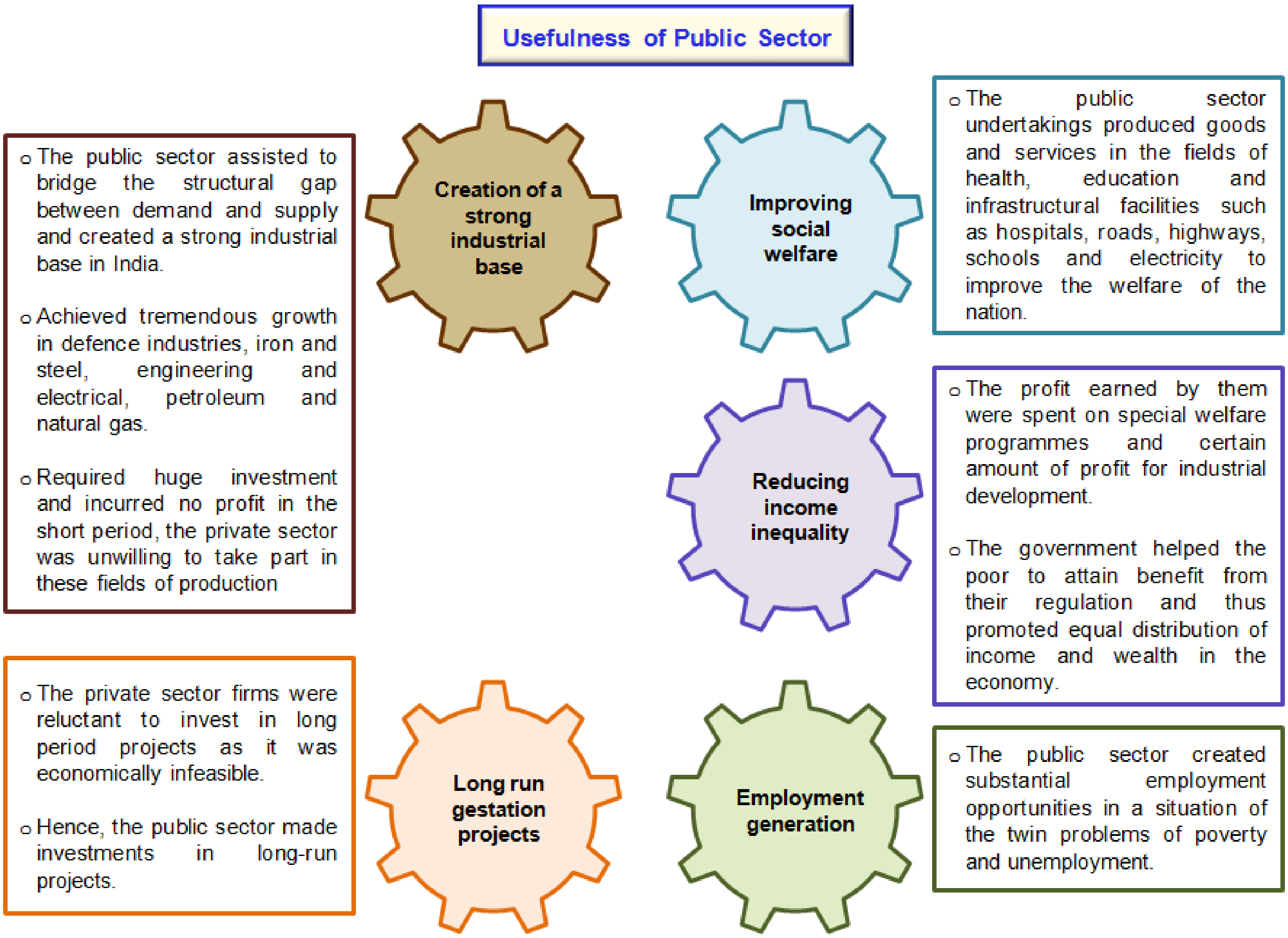
IPR 1956 classified industries into 3 categories:

The private sector was regulated under IPR 1956 ***to promote industrialisation in backward regions for reducing regional inequality.*** The following steps were taken:

- They have to ***obtain a licence to make an entry in the economy***.
- Strict licencing policy was introduced to establish industry in urban areas, whereas ***easier licencing*** was provided to establish ***new industries in backward regions***.
- Promoting industrialisation in backward regions was the main motive behind IPR 1956. ***Concession in the form of taxation*** was given for units which were established in backward regions.
- Obtaining licences to establish a new unit has also been made ***mandatory for existing firms***.

- In this way, the private sector was ***regulated to reduce regional inequality and promote industrialisation.***

Many public sector undertakings incur huge losses and are a drain on the economy's resources. However, the public sector plays an important role in ***improving social welfare and economic development of India***. The usefulness of the public sector can be better understood through the following points:



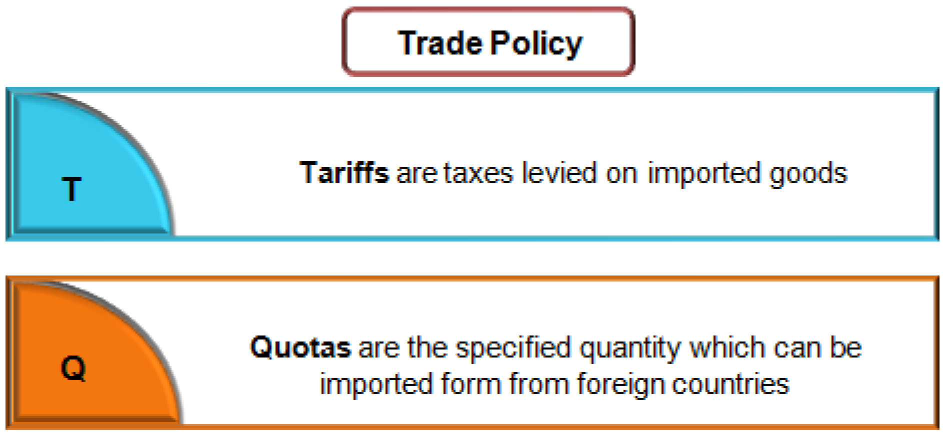
Small-scale industry

A small-scale industry is defined with reference to the ***maximum investment allowed on the assets of a unit.***

- A small-scale unit can ***invest a maximum of rupees 5 crore***.
- Small-scale industries are ***labour intensive*** and thus ***generate more employment***.
- It promotes ***equality across different sections of society*** as it generates employment per unit of investment.
- Small-scale industries cannot compete with large industrial units. Hence, ***production of certain products is reserved for the small-scale industry.***

Trade policy: Import substitution

- Import substitution is considered an ***inward looking trade policy***.
- It aimed to ***discourage the imports*** of goods and services which can be produced domestically.
- The strategy of import substitution was not only to protect domestic producers from foreign competitors but also to ***decrease the dependency on foreign goods and services***.
- In the policy of import substitution, domestic producers were protected by ***imposing tariffs and quotas on imported goods.***

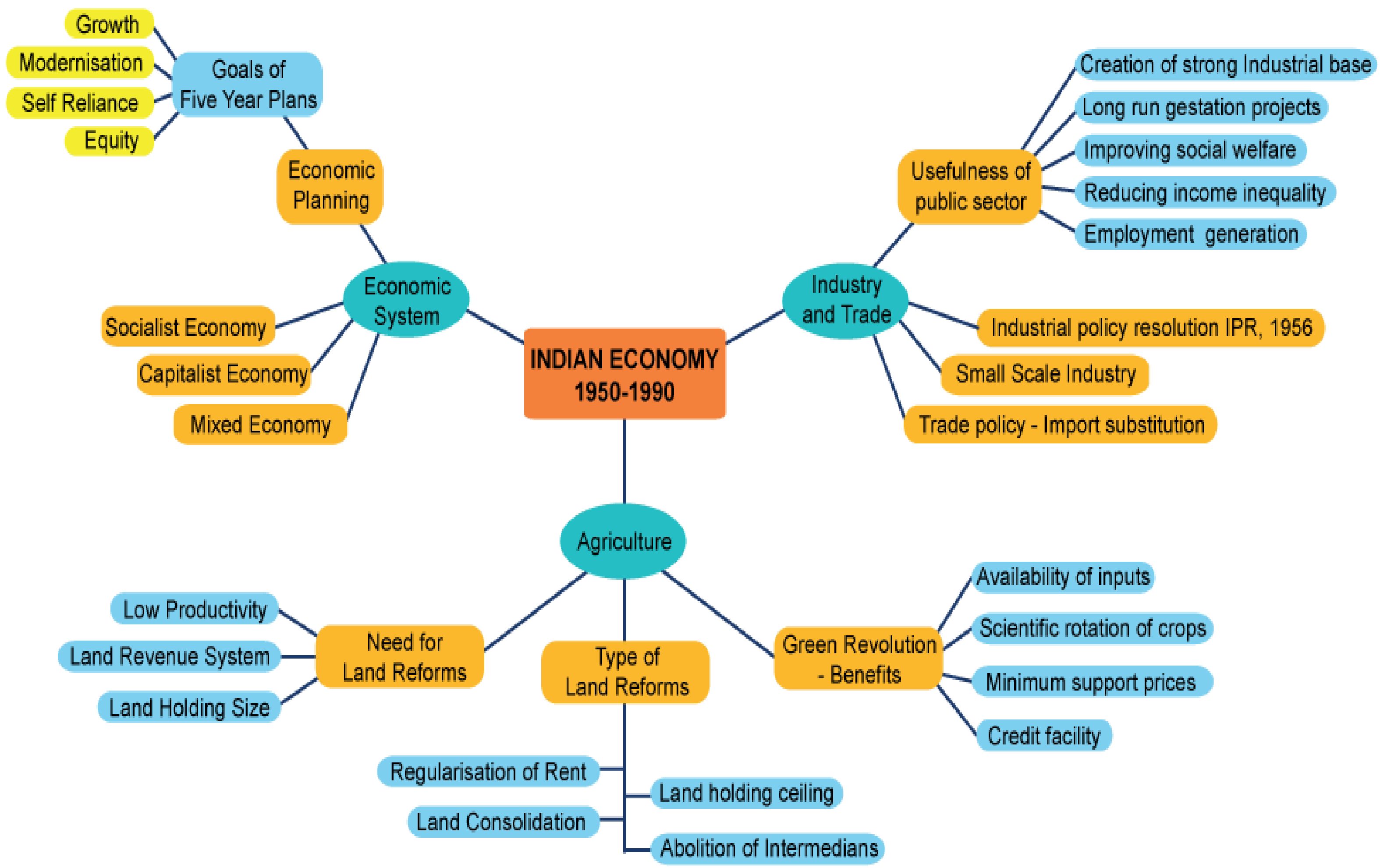


Thus, domestic firms were protected from foreign competition with the ***import substitution policy***.

Achievements of policies on India's industrial sector:

- Proportion of GDP contributed by the industrial sector increased from ***11.8% in 1950–51 to 24.6% in 1990–91.***
- ***Annual growth rate of industrial sector was 6%*** during the plan period.
- Because of the public sector, the industrial sector became well ***diversified by 1990***.
- Promotion of small-scale industries ***helped people*** who did not have capital to start new business.
- Protection of domestically produced goods from foreign competition enabled the ***development of industries in India.***

Mind Map



INDIAN ECONOMY 1950-1990
Economic System
Socialist Economy
Capitalist Economy
Mixed Economy
Economic Planning
Goals of Five Year Plans
Growth
Modernisation
Self Reliance
Equity
Industry and Trade
Usefulness of public sector
Creation of strong Industrial base
Long run gestation projects
Improving social welfare
Reducing income inequality
Employment generation
Industrial policy resolution IPR, 1956
Small Scale Industry
Trade policy - Import substitution
Agriculture
Need for Land Reforms
Low Productivity
Land Revenue System
Land Holding Size
Type of Land Reforms
Regularisation of Rent
Land Consolidation
Land holding ceiling
Abolition of Intermedians
Green Revolution - Benefits
Availability of inputs
Scientific rotation of crops
Minimum support prices
Credit facility

Important questions with answers

Q1: What are the achievements of the Green Revolution?

Ans: Achievements of the Green Revolution:

- ***Self-sufficiency in food grains*** through the use of high-yielding variety seeds for wheat and rice.
- A ***decline in the price of food grains*** as compared to other consumption goods; hence, low-income groups benefited from reduced prices.
- Procure the required amount of food grains to ***build a stock to be used in times of shortage.***
- The government provided loans to small farmers to ***purchase the necessary inputs for new technology.***

Q2: 'Growth with equity is a rational and desirable objective of planning.' — Do you agree?

Ans: Yes, it is essential for every nation to have growth along with equity.

- When there is only growth (without equity) in the economy, then everyone is not enjoying the benefit of growth.
- So, the government should ensure **appropriate allocation of wealth among the people to reduce economic inequality.**

Q3: 'Import substitution can protect domestic industry.' — Comment on the given statement.

Ans: Domestic firms were protected from foreign competition with the help of import substitution policy.

- An inward looking trade policy aimed at discouraging the imports of goods and services which can be produced domestically and ***decreasing the dependency on foreign goods and services.***
- Domestic producers were protected by **imposing tariffs and quotas on imported goods.**

Q4: Why was the public sector given an important role in the process of growth and development after Independence?

Ans: During the planning period, the public sector was given an important role in the process of growth and development because of the following reasons:

- **Lack of capital:** Private entrepreneurs ***lacked capital for setting up industries*** as a large amount was required.
- **Lack of incentive:** The Indian market was comparatively small which ***discouraged Indian industrialists to invest in major projects.***
- **Social welfare:** The public sector could bring ***balanced regional growth*** with the establishment of government units in the backward areas.

Q5: Discuss the different types of land reforms implemented in the agricultural sector.

Ans: Types of land reforms:

- **Abolition of intermediaries:** ***Ownership of land*** to motivate cultivators to make improvements in agricultural production.
- **Land ceiling:** Fixing a ceiling to ***redistribute surplus land among landless cultivators*** and prevent them from holding land below the minimum size.
- **Landholding consolidation:** Preventing segmentation and sub-division of landholding ***to bring one large piece of land under cultivation***.
- **Regulation of rent:** Determining ***the rent payable by tenant cultivators***.