Chapter-2

Indian Economy (1950-1990)

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➡ **Type of Economic System:-** Economic system are generally of 3 different types:

(a) **Capitalist Economy:-** A capitalist economy is the economy is the one in which the means of production are owned, controlled and operated by the ~~government~~ Private sector.

(b) **Socialist Economy:-** A socialist economy is the one in which the means of production are owned controlled and operated by the government.

(c) **Mixed Economy:-** A mixed economic system refers to a system in which the public sector and the private sector are allotted their respective roles for solving the central problem of the economy.

➡ **India adopted the Mixed Economy:-** In this view India would be a socialist society, with a strong public sector, but also with private property and democracy.

➡ **Economic planning:-** For the development of Indian Economy, It was necessary for the Government to plan for the economy. Economic planning can be defined as making major economic decisions (What, how and for whom to produce) by the conscious decision of a determinate authority, on the basis of a comprehensive survey of the economy as whole.

→ **Plan:** is a document showing detailed Scheme program and strategy, worked out in advance for fulfilling an objective.

→ **Goals of five year plans:** The five year plans aimed at removal of economic backwardness of the country and to make India a developed Economy. Each Five year plan listed the basic Goals of India's Development. These basic Goals are:
(i) Growth (ii) Self-reliance
(iii) Modernization (iv) Equity.

→ **Growth:** Growth refers to the increase in the country's capacity to produce the output goods and services within the country.

- Growth implies either a larger stock of productive capital or a large size of supporting services or an increase in the efficiency of productive capital and Services.

- A steady increase in the Gross Domestic Product is a good indicator of economic growth.

- In some countries, growth in agriculture contribute more to the GDP growth, while in some countries, growth in Service Sector contribute more to GDP growth.

➡ **Modernisation** :- is needed to raise the standard of living of people. Modernisation includes:

(i) **Adoption of new Technology** :- Modernisation aims to increase the production of goods and services through use of new Technology.

(ii) **change in Social outlook** :- Modernization also require change in Social outlook, such as gender empowerment or providing equal rights to women.

➡ **Self-reliance** :- under Indian conditions means overcoming the need of external assistance.

- The Five year plans stressed on use of own Resources to reduce dependence on foreign countries.
- The policy of Self reliance was considered as a necessity because of Two reasons (a) To reduce foreign dependence (b) To avoid foreign interference.

➡ **Equity** :- aims to ensure that every Indian should be able to meet his or her basic need (Food, house, eduction and health care) and inequality in the distribution of wealth should be reduced. Equity aims to raise the standard of living of all people and promote social justice.

→ **Agriculture:-** The agricutural sector accounted for the largest share of workforce. So agricultural development was focused right from the First five year plan.

→ **Policies for Growth of Agriculture:-** The Two main measures undertaken to promote growth in the agricultural sector can be broadly categorised as:
(i) Land Reforms; and (ii) Green Revolution.

→ **Land Reforms:-** Primarily Refers to change in the ownership of landholdings. Land Reforms were needed to achieve the objective of Equity in agriculture.

(i) **Abolition of Intermediaries:-** Indian Government took various steps to abolish intermediaries and to make tillers, the owners of land. The ownership right granted to tenants gave them incentive to increase output and this contributed to growth in agriculture.

(ii) **Land ceiling:-** It refers to fixing the specified limit of land, which could be owned by an individual. Beyond the specified limits, all lands belonging to a particular person would be taken over by the Government and will be alloted to the landless cultivators and small farmers. It helped to promote equity in the agricultural sector.

New Agricultural Strategy: Green Revolution in India:

- Green Revolution Refers to the large increase in production of food grains due to use of high yielding variety (HYV) seeds. HYV seeds raised agricultural yield per acre to incredible heights.
- HYV seed need Reliable irrigation facilities and financial Resources to purchase fertilizer and manur (pesticides).

Important Effects of Green Revolution:

(i) Attaining Marketable Surplus.
(ii) Buffer Stock of food grains.
(iii) Benefit to low-income group.

Risks involved under Green Revolution:

(i) Risk of pest Attack: The HYV crops were more prone to attack by pest.
(ii) Risk of increase in income inequalities: There was a risk that costly inputs required under green

Revolution will increase the disparties between Small and big Farmers.

➡ **Favourable Step by the Government to overcome the Risk:** Government provided loan at low interest rate to Small Farmers so that they could by needed inputs. As a result the Green Revolution benefited the Small as well as Rich Farmers.

➡ **Economists in Favour of Subsidies:** Government Should continue with agricultural Subsidies because:

- Farming in india continue to be a risky business.
- Majority of farmers are very poor and are unable to afford required input without subsidies.
- Eliminating Subsidies will increase income inequalities.

➡ **Economists Against the Subsidies:** According to Some economist there is no case for continuing with Subsidies as it does not benefit the target group and it a huge burden or the government's finances.

➡ **Critical Appraisal of Agricultural Development (1950-1990):**

- 'Land Reform' measures and 'Green Revolution' helped in enhancing agricultural production and productivity.

- India become self sufficient in food production due to Green Revolution.

- Land Reform result in abolition of Zamindari system.

- Proportion of GDP contributed by agriculture decline significantly, but not the population depending on it.

Industrial Development:- Five year plan stressed a lot on the industrial development. The cotton textile and jute industry were mostly developed in India. However there was a strong need to expand the Industrial waste with a variety of Industries.

Role of public Sector in Industrial Development:-

There was a need for leading role of public sector due to following reasons.

(i) **Shortage of capital with Private Sector:-** Private enterpre-nurs did not have the capital to take investment in Industrial ventures.

(ii) **Lack of incentive for private Sector:-** The Indian market was not big enough to encourage private industrialist to undertake major projects.

(iii) objective of social welfare:- Such objective could be achieved only through direct participation of state in the process of industrialization

➡ Industrial policy:- is a comprehensive package of policy measures which covers various issues connected with different Industrial enterprise of the country.

➡ Classification of Industries:- According to industrial policy Resolution 1956 the industries were reclassified into three categories:

(i) Schedule A:- This category comprised of industries which would be exclusively owned by the state.

(ii) Schedule B:- In the Schedule, 12 industries were placed, which would be progressively state-owned.

(iii) Schedule C:- This Schedule considered of the remaining industries which were to be in the private sector.

➡ Industrial license:- is a written permission from the government, to an industrial unit to manufacture goods. The Industries (Development and Regulation) Act, 1951, empowered the government; to issue Licenses for

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(a) Setting up of new industries
(b) Expansion of existing ones
(c) Diversification of products.

→ According to industrial Licensing: No New industry were allowed unless a license is obtained from the government. It was easier to obtain a license if the Industrial unit was established in an economically backward area. License was needed even if an existing industry want to expand output or diversify production.

→ Small-Scale Industry (SSI): Small-Scale industry is defined with reference to maximum investment allowed on the assets of a unit.

(i) Small Scale industries are more labour intensive, i.e, they generate more employment.

(ii) Need For protection From Big Firms: Small Scale Industry can not compete with big industrial Firms so, (a) Government reserved production of a number of product for them and (b) They were also given concessions.

→ Foreign Trade: Foreign Trade in India includes all imports and exports to and from India. In order to be self reliant in vital sectors, India has followed the strategy of replacing many imports by domestic production.

- Import Substitution refers to a policy of replacement or Substitution of imports by domestic production. This policy can serve (2) definite objectives: (a) Savings of precious Foreign exchange and (b) Achieving Self-reliance.
- Protection from Imports made 'Tarriffs and 'Quotas'.

Tariffs: Refers to taxes levied on imported goods. The aim was to make them expensive and discourage their use.

Quotas: refers to Fixing the maximum limit on the import of a commod-ity by a domestic producer.

Reason for import Substitution:

(i) To enable them to compete against the good produced by more developed economies.
(ii) To prevent drain of Foreign exchange Reserve on the import of luxury good.

Critical Appraisal of Industrial Development (1950-1990): The following point highlight the achievement of India's Industr-ial sector.

- The proportion of GDP increased from 11.8% to 24.6%.

- Industrial sector become well diversified by 1990, Largely due to the public sector.

- Promotion of small-scale Industries gave opportunities to people with small capital to get into business.

- protection from foreign competition through import Substitution enabled development of indegeneous business or Industries.

- Licensing policy helped the government to monitor and control the Industrial production.

- Public Sector made a remarkable contribution by creating a strong Industrial base, developing Infrastructure and promoting development of backward areas.