# Indian Economy (1950-1990)

## ECONOMIC SYSTEM

Economic system refers to,

***a system of production, resource allocation and distribution of goods and services within a society.***

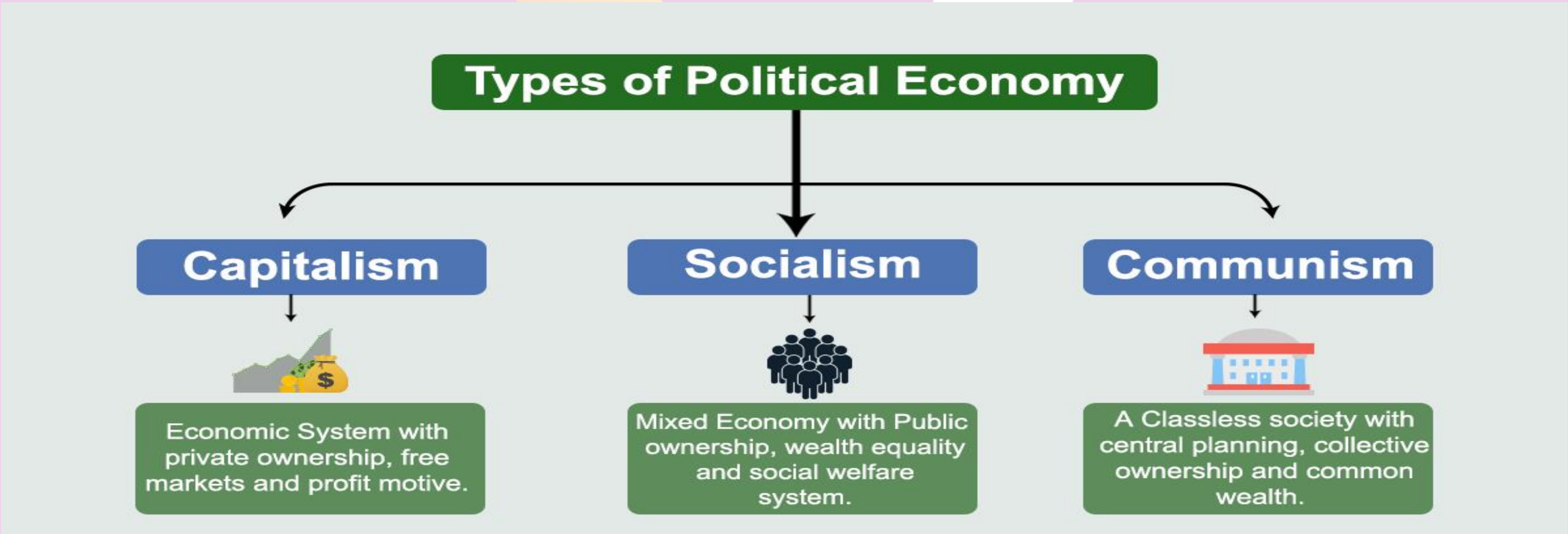
It is the 'economic order' in the country which e (includes):

i) the system of production,

ii) the system of resource allocation, and

iii) the system of distribution of goods and services in the economy.

## Types of Economic System



## Capitalist Economy

- also called ***market economy*** or ***capitalism***
- defined as the one in which means of production are owned by the individuals, and the individuals are free to take their economic decisions, as guided by the principle of profit maximisation.

## Features of Capitalist economy:

The salient features of a capitalist economy are as under:

(i) There is a ***private ownership*** of the means of production.
ii) Means of production are used in a manner such that the ***profits are maximised***.
(iii) Only those goods are produced which can be ***sold at a profit*** either in market or foreign market.
(iv) ***Distribution of the goods*** among people happens on the basis of the purchasing power – the ability of people to pay for goods and services.
(v) ***The role of the government*** is largely confined to the maintenance of law & their order and defence of the country.

### Merit

The principal merit of this system is that it *promotes self-interest. Profits are maximised*, and *GDP growth* is accelerated.



### Demerit

- The principal demerit of this system is that it ***ignores 'collective interest' of the society***
- ***The poor people suffer deprivation***.
- There is ***growth without social justice***

## Socialist Economy

A socialist economy is the one in which *there is a **social (collective/public) ownership** of the means of production, and economic decisions are taken by some central authority of the government with a view to maximise social welfare.*

It is assumed that the government knows what is the best for the country, and so individual desires are not given priorities.

## I. Features

(i) ***Means of production*** are collectively ***owned by the society*** or public ownership.
(ii) Means of production are used in a manner such that ***social welfare is maximised***.
(iii) There is ***direct participation of the government*** in the process of production.

### Merits

achieves ***'equality'*** in the distribution of income.
Growth process is based on the principle of ***social justice***.

### Demerits

- GDP growth remains a ***slow process***.
- production is not directed by the principle of 'profit maximisation Instead, it is directed by the principle of 'Equity and Justice'.

# Mixed Economy

- A mixed economy is the one in which there is private as well as public ownership of the means of production.
- Production decisions are governed largely by the principle of profit maximisation, but not without checks and balances of social justice.

## Features

The salient features of a mixed economy are as under:

(i) Means of production are **owned by the private entrepreneurs** as well as the government.

(ii) In the private sector, production decisions are governed by the **principle of profit maximisation**, while in the public sector, **social welfare rules the roost**.

(iii) **Both private and public sectors play** a significant role in the process of production.

## Merit

GDP growth is encouraged because private entrepreneurs are free to focus on **'profit maximisation'** On the other hand, **'social justice'** or equality is promoted because the government sector places high priority on the maximisation of social welfare.

## Demerit

- the government sector is often inflicted with corruption, leading to low level of efficiency/productivity.
- the mixed economies (like India) are gradually opting for privatisation of the public enterprises.

# Difference between Types of Economies

| Parameters | Capitalist economy | Socialist economy | Mixed economy |
|---|---|---|---|
| Ownership of property | Private ownership | Public ownership | Both public and private ownerships |
| Price determination | Prices are determined by the market forces of demand and supply. | Prices are determined by the central planning authority. | Prices are determined by the central planning authority, and demand and supply. |
| Motive of production | Profit motive | Social welfare | Profit motive in the private sector and welfare motive in the public sector |
| Role of government | No role | Complete role | Full role in the public sector and limited role in the private sector |
| Competition | Exists | No competition | Exists only in the private sector |
| Distribution of income | Very unequal | Quite equal | Considerable inequalities exist |

# Plan and Economic Planning (5 Years Plans)

## What is a Plan?

A plan spells out how the resources of a nation should be put to use. It should have some general goals as well as specific objectives which are to be achieved within a specified period of time.

## Economic Planning

Economic planning is a system under which a set of targets is defined by the central authority of the country.

- These targets are to be achieved within a specified period of time, taking the resources of the country in consideration.
- Economic planning is based on the principles of mixed economy and covers both economic and social areas of planning.

**Planning Commission states:**

"Economic planning means utilisation of country's resources in different development activities in accordance with national priorities"

Planning in India was initiated as a five-year exercise to achieve a distinct set of objectives, Responsibility for overall planning was vested with the ***Planning Commission which was set up in March 1950***.

Planning commission was replaced by ***Niti Aayog in 2015***

## List of 5 plan in India and Their Main Objectives

| Five Year Plans | Term | Main Objectives |
|---|---|---|
| First five-year plan | 1951-56 | Development of Primary Sector. |
| Second five-year plan | 1956-61 | Industrial development and development of public sector. |
| Third five-year plan | 1961-66 | Overall development and independent economy. |
| **Plan Holidays** | **1966-69** | **Overall development. Equal priority to agriculture and Industry.** |
| Fourth five-year plan | 1969-74 | Advancement in agriculture. |
| Fifth five-year plan | 1974-79 | Employment, poverty alleviation |
| **Rolling Plan** | **1978-80** | **To overcome the rigidity of five-year plans,** |
| Sixth five-year plan | 1980-85 | Economic liberalisation, elimination of price controls |
| Seventh five-year plan | 1985-90 | Establishment of a self-sufficient economy, opportunities for productive employment and upgradation of technology. |
| **Annual Plans** | **1990-92** | **Increase in economic productivity, production of food grains generating employment through social justice** |
| Eighth five-year plan | 1992-97 | Modernisation, economic reforms. |
| Ninth five-year plan | 1997-2002 | Promotion of economic and social growth |
| Tenth five-year plan | 2002-2007 | Reduction in poverty, gender gaps in literacy |
| Eleventh five-year plan | 2007-2012 | Rapid and inclusive growth, |
| Twelfth five-year plan | 2012-2017 | Faster, inclusive and sustainable growth |

# THE GOALS OR OBJECTIVES OF PLANNING IN INDIA

GDP GROWTH | MODERNISATION | SELF RELIANCE | EQUITY

## Growth or increase in GDP

Growth refers to increase in the country's capacity to produce the amount of goods and services within the country.

- It is necessary to produce more goods and services if the people of India are to enjoy more rich and varied life
- The GDP of a country is derived from the different sectors of the economy, namely the agricultural sector, the industrial sector and the service sector. The contribution made by each of these sectors makes up the structural composition of the economy.

## Modernisation

- On the eve of independence, India was lacking in technical knowledge.
- Therefore, Modernisation was required to increase the use of capital and machinery, change in social outlook and cultural life of people.
- To increase the production of goods and services the producers have to adopt new technology.
- Adoption of new technology is called modernisation.
- It refers to those institutional changes in economic activities which make an economy progressive and modern.

## Self-Reliance

- Self-reliance means not depending on external help ***avoiding imports of those goods which could be produced in India itself*.**
- This is another major objective which targets the non-interference by foreign countries in areas of food supplies, capital investment and debts.
- it was feared that dependence on imported food supplies, foreign technology and foreign capital may make India's sovereignty vulnerable to foreign interference in our policies.

## Equity

- It is also important to promote social justice.
- It can be done by improving standard of living of weaker sections of the society and reducing us income and regional inequalities.
- Every Indian should be able to meet his or her basic needs such as food, a decent house, education and health care etc. Inequality in the distribution of wealth should be reduced.

## Full Employment

Full employment is a situation when everyone who is able and willing to work at the market wage rate, is working i.e., is engaged in some job activity which brings him income (value of his services).

- It implies that there should be a higher rate of active participation of the working age group in economic activities of the country
- Full employment also rules out the existence of poverty and unemployment.

## Agricultural

Agricultural sector was both backward and stagnant.

- Low level of output and productivity.
- Low level of investment as well at low inducement to invest
- Small and Scattered holdings.
- Lack of Technology
- Subsistence outlook of Farmers.

Further, agriculture was stagnant, as it exhibited the following features:

- an exploitative land revenue system (like zamindari system of land revenue)
- Forced commercialization of agriculture
- Widening gulf between the tillers of the soil and owners of the soil.

In view of these issues of backwardness and stagnation of Indian agriculture, the planners in India introduced a series of reforms which are broadly classified as:

**Land (or Institutional) Reforms** **Technical Reforms**


## Land Reforms [Institutional Reforms]

Land reforms or institutional reforms aimed at reducing inequality in Indian agriculture:

### (1) Abolition of Intermediaries

- Stop exploitation of the cultivators by the zamindars.
- Give incentives to the cultivators to make improvements on land as Its owners.

### (2) Ceiling on Land Holdings:

- It implies fixation of the maximum size of cultivable land that an individual or a family could own.

- The surplus land (over and above the ceiling limit) was resumed by the government and redistributed among small holders or landless labourers.

## (3) **Consolidation of Holdings**:

- Consolidation is a practice to allot land to the farmer at one place for his scattered holdings here and there.
- By 2004, more than 1.633 lakh hectares of land was brought under consolidated holdings.

## (4) **Regulation of Rent:**

To put an end to excessive and illegal extortions from the cultivators, rents were regulated. Generally, these were not to exceed 1/3$^{rd}$ of the value of crop.

## (5) **Cooperative Farming**:

- Cooperative farming was promoted to enhance bargaining power of the small holders.
- farmers could buy inputs at a lower price and sell their produce at a higher price.

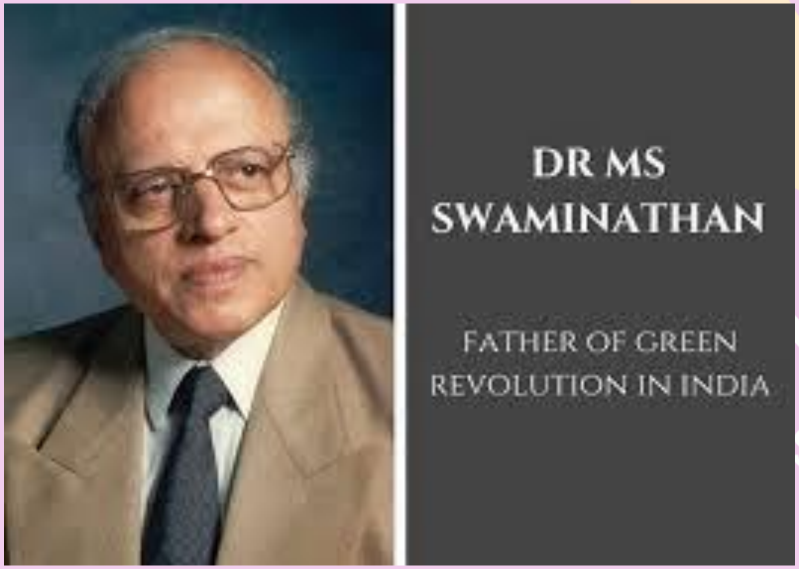
# Green Revolution

Green → Crops

Revolution → Sprut

spurt in crop production

Happening in India in the year 1967-68. production increased by nearly 25%.




## Elements of HYV Technology

### (1) Use of HYV Seeds:

- Since 1965, High Yielding Variety seeds started replacing the conventional varieties.
- HYV seeds for wheat, bajra, rice, maize, jowar, and cotton etc.

### (2) Use of Chemical Fertilizers:

- As the use of HYV increased, so did the use of chemical fertilizers.
- The estimates of Fertilizer Association of India reveal that almost 297.96 lakh tonnes of chemical fertilizers were consumed in India during 2021-22.

### (3) Use of Insecticides and Pesticides for Crop Protection:

- Requires the use of pesticides to protect the crops against pests and diseases.
- Integrated Pest Management Program was adopted along with the adoption of HYV technology.

### (4) Expansion of Irrigation Facilities:

- HYV seeds need to be deeply irrigated.
- Several major and minor irrigation projects were launched
- It is significant that while in 1951, barely 17 percent of land was under permanent means of irrigation, it increased to nearly 45 per cent during the plan period.

### (5) Use of Technical Equipment's:



## Two Distinct Phases of Green Revolution

**Phase 1: Mid-60s-Mid-70s and Phase 2: Mid-70s-Mid-80s**

### Phase 1: Mid-60s-Mid-70s

Crops: **wheat and rice** growing regions of the country.

States: **Punjab, Andhra Pradesh and Tamil Nadu**.

*In the first phase, only the farmers who had financial resources to purchase the inputs were able to reap the benefits and therefore, the revolution was restricted to affluent areas of the country.*

### Phase 2: Mid-70s-Mid-80s

The impact of Green Revolution became widespread. Covering most areas of the country and larger number of crops.

During second phase, *the government provided loans to the small farmers at a very low interest rate and subsidized fertilizers & pesticides, making the modern inputs accessible to the small farmers*. As a result, Green Revolution covered the small landholders as well.

## Gains of Green Revolution

Following observations highlight the benefits of Green Revolution:

### (1) Spurt in Crop Productivity:

- Productivity of wheat was estimated at 3,507 kg per hectare in 2021-22 compared to 660 kg per hectare in 1951;
- rice, it was 2,809 kg per hectare in 2021-22 compared to 665 kg per hectare in 1951;
- maize, it was 3,349 kg per hectare in 2021-22 compared to 704 kg per hectare in 1951.

Spurt in productivity has led to a structural shift in Indian agriculture. This has marked the end of long period stagnation in Indian agriculture.

### (2) Substantial Rise in Acreage (Area under Cultivation):

HYV technology has significantly reduced the time lag between sowing and harvesting of crops.

In *1950-51, gross area under cultivation was 13 crore hectare which now has shot up to 20 crore hectares*.

### (3) Shift from Subsistence Farming to Commercial Farming:

- Owing to increase in productivity and increase in acreage has started generating marketable surplus.
- prompted the farmers to commercial farming.

### (4) Change in Farmers' Outlook:

Farming is no longer viewed as a source of subsistence; it is considered as a commercial venture as well.

### 5) Self-sufficiency in Food Grain Production and Buffer Stocks:

- Led to self-sufficiency in food grain production.
- Led to a fall in market price of food grains.
- Food grain production increased so substantially that it enabled the government to keep buffer stocks.
- These stocks are used to meet demand during lean seasons of farm supplies.

## Limitations of Green Revolution

### (1) Limited Crops:

- Revolutionary rise mainly to the production of food grains (wheat and rice).
- No similar rise in the production of pulses and commercial crops like jute, cotton, tea, etc.

### (2) Un-even Spread:

- Spread of Green Revolution was not uniform across all regions.
- Punjab, Haryana, Maharashtra and Tamil Nadu, it made a remarkable impact. But in Eastern UP, Bihar, Madhya Pradesh and Odisha, its impact was relatively insignificant.

### (3) Limited Farming Population:

- HYV technology required expensive Inputs which were beyond the reach of marginal farmers.
- However, rich farmers could afford these but not by poor.

## (4) Economic Divide:

- Despite aid by the government in terms of subsidized inputs,
- HYV technology remained beyond the reach of most marginal holders. Consequently, the gulf between rich and poor tended to swell over time.

## Agricultural Subsidies: Virtue or Vice?

### Agricultural Subsidies: A Vice

**Arguments by opponents of agricultural subsidy:**

**(1) Huge Burden on Government Finances**

**(2) Misappropriated Benefits**-the benefits of subsidies are mostly reaped by those in prosperous regions Since, the target beneficiaries are left behind, there is no rationale in continuing with the subsidies.

**(3) Wasteful Consumption:** Subsidies do not allow market price to dictate the supply of goods. As market prices are unable to act as signals-availability of supplies at low price leads to wasteful consumption.

### Agricultural Subsidies: A Virtue

**Arguments by proponents of agricultural subsidy:**

■Agriculture is a risky business in India, subsidies are needed.

■If subsidies are eliminated, the inequality between rich and poor farmers will expand. Because, while the rich can reap the benefits of new technology the poor cannot.

Briefly, we can say the need of the hour is not to lower subsidies, but to ensure that the benefits of subsidies is directed towards the intended beneficiaries.

## Industry

*Industries provide employment opportunities*

The colonial rule had left behind a decayed ***Handicraft Industry***

Besides a bleak existence of the ***large-scale industry*** (confined mainly to cotton and jute textiles)

**Industrial Development needed**

- *Five Year Plans*
- *Massive Investment*
- *Direct and significant participation of the Public Sector*

# Factors Necessitating Direct Participation of the State (Public Sector) in Industrial Development

## Lack of Capital

Industrial development in India needed a big push Implying a large amount of capital expenditure.

## Low Inducement to Invest

The private investors lacked inducement to invest. It was owing to limited size of the market.

## Growth with Social Justice

Growth with social justice was stated as one of the critical objectives of Five-Year Plans. The government realized that this objective could be achieved only through

## IPR, 1956 (Industrial Policy Resolution, 1956)

- A clear declaration of the government in the process of industrialization.
- The resolution laid a roadmap of the Second Five Year Plan.

# Principal Elements of IPR, 1954

## (1) Three-fold Classification of Industries

- Established and developed exclusively as **Public Sector Enterprises**. These include **Atomic Energy, Defence and Railways**.

- Established both as the **Private and Public Sector Enterprises**. (*private sector was to play only a secondary role*). This includes **fertilizer industry, mining industry** etc.

- All industries rather than in categories and left to the **Private Sector**.

## (2) Industrial Concessions

The private entrepreneurs were offered many types of industrial concessions for establishing industry in the backward regions of the country.

- Tax holiday (freedom from the payment of tax for sometime
- Subsidized Power Supply.

Promote Regional Equality.

## (3) Industrial Licensing

- Industries in the private sector could be established only through a **licence** from the government.
- also, for expanding production capacity of the existing ones.
- The focus was to promote social welfare rather than private profits.

## Small-Scale Industry (SSI)

**Origin**

The role of small-scale industry for promoting rural development was underlined by ***Karve Committee*** (also called Village and Small-scale Industries Committee) in **1955**.



**MEANING**

Small scale industries are referred to as those industries in which the process of manufacturing, production and servicing are done on a small scale.

A unit having ***fixed investment*** of less *than ₹10 crore* with a ***turnover*** of *less than ₹50 crore.*

At the beginning of Planning (1951):

- Turnover did not exceed ₹1 crore.
- Investment did not exceed ₹ 5 lakh.

## Three Typical Characteristics of SSI

### 1. SSI is Labour-intensive and therefore Employment Friendly:

SSI is **Labour-Intensive**, while LSI is **Capital-Intensive**

*Small-scale industry is expected to use more of labour than capital*

### 2. SS1 shows Locational Flexibility and is therefore Equality-Oriented

- Referring to **Inter-Regional Equality**
- shows **Locational Flexibility.**

*It is therefore equality-oriented, contributing to balanced regional growth.*

### 3. SSI needs Small Investment and is therefore Equity-Oriented

- Referring to **Equality** across different sections of the society
- SSI needs much **Smaller Investment.**

*It does not lead to concentration of economic power.*

## Objectives of Small-Scale Industries

1. To create ***job opportunities*** for the population.
2. To help in the ***development of the rural areas*** of the economy.
3. To play an active role in ***reducing the regional imbalances*** in the nation.
4. To help in ***improving the standard of living*** for people in rural areas.
5. To ensure there is ***equal distribution of wealth and income***.

## Role of Small-Scale Industries in the Indian Economy

1. They are the *major sources of employment* for the people living in rural areas.
2. Small scale industries account for almost *40% of the total goods and services in India*.
3. Small scale industries help in *promoting the Make in India* initiative which helps in increasing demand for local made products.
4. Majority of the export materials are provided to the Indian companies from the small-scale industries. It is estimated that around *50% of all the material exported* are produced from such industries.

## Examples of Small-Scale Industries

1. Paper Bags industries
2. Leather belt manufacturing industries
3. Small toys manufacturing industries

4.Bakeries
5.School stationeries
6.Water bottles manufacturing industries
7.Beauty parlours
8.Pickle manufacturing industries
9. Incense stick manufacturing industries
10. Paper plate manufacturing industries

## Foreign Trade of India


### Trade Policy

Trade policy can be defined as goals, rules, standards, and regulations that are involved in the trade between countries.

- These policies are particular to a specific country and are formed by its public officials.

- A country's trade policy covers taxes imposed on inspection regulations, import and export, and tariffs and quotas.

## TRADE: STRATEGY OF IMPORT SUBSTITUTION

Adopted the strategy of ***Import Substitution*** during the period ***1950-1990***. It is also **called 'Inward-Looking Trade Strategy.**

Inward looking trade strategy refers to the policy of reliance on **"import substitution'** and ***protection to the domestic industry*** through import restrictions and import duties in the area of international trade.

**Quota:** It specifies the number of goods that can be imported.

**Tariff:** It is a tax that is imposed on imported products. This tax makes imported products more costly and discourages their use.

### *Motive behind Import Substation Policy*

- ❖ Promote domestic production.
- ❖ Strategy to save foreign exchange by restricting the volume of imports.
- ❖ Foreign exchange was to be utilized for developmental imports (import of such plant and machinery)
- ❖ Protect the domestic industry from international competition.

## SALIENT FEATURES OF INDIAN ECONOMY DURING 1950-1990

- Based on Mixed Economy and Five-Year Plans as the overall growth model.
- Public enterprises were to play a central role in the process of industrialisation
- Private enterprises were to play only a secondary role in the process of industrialization (under Permit- Licence Raj.
- Process of industrialisation focused on 'import substitution' to achieve self-reliance.
- Domestic industry was to be protected from foreign competition, through:
  - Heavy duty on imports, and
  - Fixation of import quotas.
- Large-scale industry was developed to build an Infrastructural base in the country.
- Small-scale industry was developed to achieve the objectives of employment and equity.

## Good Effect

(i) **Economic growth got a big push with a blend of Green Revolution**.
- massive increase in agricultural output
- industrial sector in GDP increased from 13 per cent in 1950-51 to 24.6 per cent in 1990-91.

(ii) The industrial sector became well diversified by 1990

(iii) The sunrise industry like electronics and iron and steel marked its emergence in the domestic economy.

**(iv)** Growth of large-scale industry (like Rourkela and Bhilai Steel Plants) projected an infrastructural shift in the Indian economy.

**(v)** Growth of SSI made a substantial contribution in achieving the objectives of growth with social justice.

## Bad Effect

- Excessive dominance of public sector. This undermined the significance of private sector as an agent of growth.
- Public sector monopolies gradually turned out to be a *dead social weight, Inefficiency, corruption, leakage and pilferage.* emerged as their principal characteristics. By incurring huge losses, public sector enterprises left inefficient use of scarce national resources.
- The need to obtain license for opening of new firms or expanding the existing firms was misused by big industrial houses.
- Protection of domestic industry failed to achieve international standards of product-quality.
- Saving foreign exchange through import substitution (rather than generating it through export promotion) proved to be an inefficient policy instrument. Our foreign exchange reserves started shrinking, and by the end of 1990, these stocks sank to the bottom. So much so that we had to pledge our gold reserves with the World Bank to salvage our borrowings.