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INDIAN ECONOMIC DEVELOPMENT

CHAPTER 2nd

INDIAN ECONOMY

1950- 1990

ECONOMIC SYSTEM

An economic system is a means by which societies or governments organize and distribute available resources, services, and goods across a geographic region or country.

TYPES OF ECONOMIC SYSTEM

1. Capitalist Economic System

2. Socialist Economic System

3. Mixed Economic System

Every society has to answer three questions

a) What goods and services should be produced in the country?

b) How should the goods and services be produced?

c) How should the goods and services be distributed among people?

1. Capitalist Economic System

In a market economy, also called capitalism, only those consumer goods will be produced that are in demand.

If labour is cheaper than capital, more labour-intensive methods of production will be used and vice-versa.

In a capitalist society the goods produced are distributed among on the basis of Purchasing Power.

2. Socialist Economic System

In a socialist society the government decides what goods are to be produced in accordance with the needs of society.

The government decides how goods are to be produced and how they should be distributed.

3. Mixed Economic System

In mixed economies, the government and the market together answer the three questions of what to produce, how to produce and how to distribute what is produced.

What is a Plan?

A plan are some general goals as well as specific objectives which are to be achieved within a specified period of time.

In 1950, the Planning Commission was set up with the Prime Minister as its Chairperson. The era of five year plans had begun.

THE GOALS OF FIVE YEAR PLANS

Growth: **It refers to increase in the country's capacity to produce the output of goods and services within the country. A good indicator of**

economic growth, is steady increase in the Gross Domestic Product (GDP).

Modernisation: **Adoption of new technology is called modernisation. However, modernisation does not refer only to the use of new technology but also to changes in social outlook.**

Self-reliance: **Which means avoiding imports of those goods which could be produced in India itself.**

Equity: **Every Indian should be able to meet his or her basic needs such as food, a decent house, education and health care.**

AGRICULTURE

Land Reforms: **At the time of independence, the land tenure system was characterised by intermediaries (variously called zamindars, jagirdars etc.)**

Land ceiling was a policy to promote equity in the agricultural sector. This means fixing the maximum size of land which could be owned by an individual. The purpose of land ceiling was to reduce the concentration of land ownership in a few hands.

The land ceiling legislation also faced hurdles.

The Green Revolution: **This refers to the large increase in production of food grains resulting from the use of high yielding variety (HYV) seeds especially for wheat and rice.**

INDUSTRY AND TRADE

Economists have found that poor nations can progress only if they have a good industrial sector. At the time of independence, the variety of industries was very narrow — largely confined to cotton textiles and jute. Governments had to play an extensive role in promoting the industrial sector.

Industrial Policy Resolution 1956 (IPR 1956):

This resolution formed the basis of the Second Five Year Plan. This resolution classified industries into three categories. The first category comprised industries which would be exclusively owned by the government; the second category consisted of industries in which the private sector could supplement the efforts of the public sector; the third category consisted of the remaining industries which were to be in the private sector.

No new industry was allowed unless a license was obtained from the government. This policy was used for promoting industry in backward regions; it was easier to obtain a license if the industrial unit was established in an economically backward area. In addition, such units were given certain concessions such as tax benefits and electricity at a lower tariff. The purpose of this policy was to promote regional equality.

Small-Scale Industry: **In 1955, the Village and Small-Scale Industries Committee, also called the Karve Committee, using small-scale industries for promoting rural development.**

In 1950 a small-scale industrial unit was one which invested a maximum of rupees five lakh; at present the maximum investment allowed is rupees one crore. It is believed that small-scale industries are more 'labour intensive'. But these industries cannot compete with the big industrial firms; for this purpose, the production of a number of products was reserved for the small-scale industry. They were also given concessions such as lower excise duty and bank loans at lower interest rates.

2.5 TRADE POLICY: IMPORT SUBSTITUTION

The industrial policy that India adopted was closely related to the trade policy. In the first seven plans, trade was characterised by what is commonly called an inward looking trade strategy. Technically, this strategy is called import substitution.

This policy aimed at replacing or substituting imports with domestic production. In this policy the government protected the domestic industries from foreign competition. Protection from imports took two forms: tariffs and quotas. Tariffs are a tax on imported goods; they make imported goods more expensive and discourage their use. Quotas specify the quantity of goods which can be imported.

The policy of protection was based on the notion that industries of developing countries were not in a position to compete against the goods produced by more developed economies.