

Chapter 2

Indian Economy Between 1947-1991

Background

On 15 August 1947, India woke to a new dawn of freedom. Finally, we were masters of our destiny after some two hundred years of British rule; the job of nation-building was now in our own hands. Just after independence, there was an urgent need to increase agricultural productivity, land reforms, industrialisation, raising the level of employment, level of Income, improve living standard, overcome poverty and attaining self-sufficiency.

For achieving all these India had to develop at a fast pace to wipe out all the scars of British rule and leaders had to choose the right type economy for India.

Various economists and leaders from all around the world were consulted. Development patterns of many countries such as Russia, USA, France and Japan were studied, and discussions were made to decide the kind of planned development that India should undertake.

There were three types of economic systems :

1. Capitalist Economy.

2. Socialist Economy.

3. Mixed Economy.

1) Capitalist economy: Capitalist economy depends upon the market forces of demand and supply. In this type of economy only those consumer goods will be produced that have good demand in the market and yield profit to the producers. The only aim is profit maximisation and the consumers are free to consume whatever they like.

2) Socialist economy: Socialist economy is a system in which all the decisions are taken by the government. In this system, the government decides what goods are to be produced as per the needs of society, how goods are to be produced and how to be distributed.

3) Mixed economy: In a mixed economy, public and private sector exist side by side. Both price mechanism and central planning authority decide what, how and for whom to produce. India is a mixed economy.

Comparison table all the three economic systems

Features	Capitalism	Socialism	Mixed Economy
1. Ownership of Property	Private ownership	Public ownership	Both public and private ownership
2. Freedom of enterprise	Exists	No freedom	Freedom in the private sector but no freedom in public sector
3. Motive of production	Profit motive	Social welfare	The profit motive in the private sector and welfare motive in public sector

4. Who governs production	Price mechanism	Planning mechanism	Both price mechanism and planning mechanism
5. Competition	Exists	No competition	Exists only in private sector
6. Distribution of income	Very unequal	Quite equal	Considerable inequalities exist
7. Role of government	No role	Complete role	Full role in the public sector and limited role in the private sector

Indian Economy as a mixed economy

Mixed Economy is a system in which major economic decisions (**what, how and for whom to produce**) are taken by the central government authority in the public sector as well as left to the free play of market forces in the private sector. While the market forces ensured the maximisation of individual profits and high growth rate, the central authority ensured the maximisation of social welfare.

Our first prime minister Jawaharlal Nehru and many other leaders and thinkers of the newly independent India sought an alternative to the extreme versions of capitalism and socialism. They want the best features of socialism without its drawbacks of slow growth rate (moreover it was not possible in a democracy like India for the government to change the ownership pattern of land and other properties of its citizens). For this reason, planners allow private ownership and private sector to accelerate economic growth. They formed an economic system which combined the best of both capitalism and socialism i.e. mixed economy.

The ‘Industrial Policy Resolution’ of 1948 and the Directive Principles of the Indian Constitution reflected this outlook.

Five Years Plans and Its Goal

A plan specifies the set of objectives to be achieved within a specified period of time.

Economic planning: Economy planning is the strategy to utilise the resources of the country optimally to achieve the predetermine economic goals or objectives.

In other words, it is the assessment, allocation, mobilisation and optimum utilisation of resources to achieve certain economic objectives such as growth, equity, modernisation and self-reliance. *“Planning should have some general goals as well as specific objectives which are to be achieved within a specified period of time”*

Necessity and importance of economic planning in India

By the time India won its independence, the scars of the two-century long British colonial rule were already showing on all aspects of the Indian economy:

1. The agricultural sector was already saddled with surplus labour, extremely low productivity and unfair land revenue system.
2. The industrial sector was crying for modernisation, diversification, capital good industries, and increased public investment.

3. Foreign trade was oriented to feed the Industrial Revolution in Britain.
4. Infrastructure facilities, including the famed railway network, needed up-gradation, expansion and public orientation.
5. Prevalence of rampant poverty and unemployment required welfare orientation of public economic policy.

To wipe out all the scars of British rule, India needed to accelerate economic growth and at the same time needed to ensure social welfare and equality. All this was possible with the help of the right economic planning. For this purpose, the planning commission is formed.

Planning Commission:

The Planning Commission was formed in **1950** with prime minister Jawaharlal Nehru as its Chairperson. It determined the type of plan that would be best for faster economic development. The chairperson of the Planning Commission is the Prime minister of India.

Functions:

1. Assessment of material, capital and human
2. Formulation of a plan for their most effective and balanced
3. Determination of priorities and allocation of resources.

Five Year Plans:

Planning Commission had suggested that India should prepare a plan covering a period of five years. That is why India's development plans are termed as Five-Year Plans.

It has four main objectives(**GEMS**):

1. **Growth,**
2. **Modernization,**
3. **Equity**
4. **Self Reliance**

Growth refers to an increase in the country's capacity to produce the output of goods and services within the country. It can be achieved either through a large stock of productive capital, or a larger size of supporting services like transport and banking, or an increase in the efficiency of productive capital and services.

➤ The high rate of economic growth by raising the GDP and per capita GDP has been the first and foremost goals of all the plans in the country. It was very necessary that the Increase in GDP must be so significant that it is not neutralized by the increase in the population size of a country.

➤ Increase in GDP is only possible when the production capacity of the nation is enhanced. It implies

(i) increase in the potential resource of the nation

(ii) increase in productivity through improved technology and innovations.

➤ The different sectors of the economy, namely the agricultural sector, the service sector and the industrial sector are considered when the GDP is derived. The structural composition of the economy is the contribution made by each of these sectors.

➤ In the underdeveloped Economy share of the primary sector is more than the secondary and tertiary sector. It was evident that as growth proceeds, relative shares of the secondary and tertiary sector must increase while that of the primary sector declines.

Modernization:

Modernization refers to the adoption of new technology in the field of production and change in social outlook. Thus, modernization has two main aspects:

1. Adoption of new technology 2. Change in social outlook

1. **Adoption of new technology:** It increases productivity and efficiency. For instance, agricultural production can be increased by using HYV (high yielding variety) of seeds and new agricultural implements instead of using old ones. Similarly, an industry can increase its production by introducing new machines in its factory.
2. **Change in social outlook:** Change in social outlook also plays an important role in, for instance, acceptance of birth control measures helps in controlling population growth. Similarly granting equal rights and equal wages to women will encourage the optimum utilization of women talent.

Self-reliance:

The economic growth and modernisation of a nation can be promoted in two ways:

1. Using resources imported from other
2. Using its own resources

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.

➤ The first seven five-year plans stressed and gave a lot of weightage to self-reliance; it implies avoiding the import of goods which can be produced in our country itself.

➤ This policy was considered essential in a bid to reduce our dependence on other nations, essentially for food.

Equity:

It is important to ensure that the benefits of economic prosperity reach not only to rich sections of society but also to poor sections of society. Every Indian should be able to meet his or her basic needs like food, clothing, housing, education and healthcare. So, in addition to growth, modernization, self-reliance, equity also keeps the same importance.

The objective of Equity has three main dimensions:

➤ **Reduction in economic inequalities:** Generally economic inequalities are of two forms- inequalities of income and inequalities in the distribution of wealth and property. Both are complementary to each other. Here in India, we find both forms of inequalities. To remove these inequalities our five-year plans have emphasized redistribution of land in villages, progressive taxation and check on monopolistic tendencies.

➤ **Curbing concentration of economic power:** Our plans have also

emphasized the need to see that there should not be a concentration of economic power only in a few hands. The Fruit of development should be a trickle down to all sections of society.

➤ **Uplifting the weaker sections of society:** The objective of equity demands that we should pay special attention to weaker and poor sections of our society. In this regard, our plans have emphasized the development of landless labour, small and marginal farmers.

Agriculture: Land Reforms, Green Revolution and Debate over subsidy

The first and foremost priority of India after achieving independence was the agricultural sector and its faster growth.

The agricultural sector was of great importance and needed a faster growth rate because:

- A large proportion (70% to 75%) of the population derived its livelihood directly from agriculture.
- The low productivity of the agricultural sector forced India to import food from the United States of America (U.S.A.).
- The Intermediary System promoted by the British had created vast inequalities in this sector. Most of the farmers were working as tenants on their own land.
- There was hardly any use of modern technology by the Indian farmers.

Land Reforms

Land reforms refer to the changing of laws, regulations or custom related to the ownership of land.

India needed land reforms for the following reasons

- **Unfair land revenue system:** The colonial government in India introduced various systems of land settlement. The zamindari system was the most infamous one. Under this system, zamindars were considered as real owners of the land and free to collect rent from cultivators without any contribution to the improvement of the farm.
- **Small Landholding size:** Due to sub-division and fragmentation of agricultural holding, the adoption of advanced technology in the agricultural sector was exceedingly difficult.

Types of land reforms implemented in the agricultural sector:

Abolition of intermediaries: The idea behind the abolition of intermediaries was that ownership of land will motivate cultivators to improve agricultural production with a lot of efforts and investment. Nearly, 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. Thus, the ownership of land motivated them to make a profit from the increased level of agricultural production.

Land ceiling: Under the land ceiling policy, a limit was set for individuals to own a maximum size of land. This policy helped to reduce inequality in the agricultural sector. By fixing a ceiling, surplus land can be redistributed among landless cultivators and small farmers. On the other hand, the minimum limit will prevent them from holding below the minimum size of land.

Regulation of rent: All the states enacted laws to determine the rent payable by

tenant cultivators. However, this rent structure varied between 30% and 40% of produce in each state.

Landholding consolidation: Converting various small parts of land holdings into one big plot is called landholding consolidation. This helped to bring the scattered and fragmented land into one big piece and helped farmers to use the same for productive purposes.

Failures of Land Reforms

Lack of Political Will: Implementation of land reforms calls for hard political decisions and effective political support, direction and control. No tangible progress is expected in the absence of the required political will. Land reforms have failed because of the lack of political will. Considering the character of political power structure prevailing in the country, it was only natural that the duty conflicted with their benefits.

Flaws, in Legislations-Definition of 'Personal Cultivation': The definition of personal cultivation was highly unsatisfactory. Legally, it required only personal supervision and not the personal labour on the part of the owner to satisfy the criterion of personal cultivation. In other words, even supervision by the family members of the owner of the land was taken to be adequate proof of personal cultivation by the owner.

Malafide Transfers: The zamindars indulged in the large-scale transfer of land to their family members. This happened because of loopholes in the definition of demand cultivation in the law relating to land ceilings.

- **Inadequate Proof of Tenants:** Tenants cultivating land are not in a position to prove that they are the actual tillers of soil because their names do not appear in records.

The Green Revolution

Green Revolution referred to the large increase in the production of food grains resulting from the use of High Yielding Variety (HYV) seeds, especially for wheat and rice. The use of these seeds required the use of fertilizers and pesticides in correct amount as well as regular water supply

Need to Launch Green Revolution:

- At the time of independence, about 75 per cent of the country's population was dependent on agriculture. Productivity in the agricultural sector was very low because of the use of old technology and the absence of required infrastructure for the vast majority of farmers.
- India's agriculture vitally depends on the monsoon and if the monsoons fell short, the farmers were in trouble unless they had access to irrigation facilities which very few had.
- Most of the Indian farmers did not have any Marketable surplus (The portion of agricultural produce which is sold in the market)
- The condition of small farmers was more miserable compared to big landholders.

Two Phases of the Green Revolution:

In the first phase of the green revolution (approximately mid-1960's up to mid-1970s), the use of HYV seeds was restricted to the more affluent states of Andhra Pradesh and Tamil Nadu. Further, the use of HYV seeds primarily benefited the wheat-growing regions only.

In the second phase of the Green Revolution (mid-1970's to mid-1980s) the HYV technology spread to a large number of states and benefited more variety of crops.

Result of the Green Revolution:

- ❑ The spread of Green revolution enabled India to strengthen technology in agriculture and to achieve self-sufficiency in food grains.
- ❑ India was no longer dependent on the import of food grain from America or any other nation to meet the nation's food requirements.
- ❑ A good proportion of the rice and wheat produced during the green revolution was used as marketed surplus. As a result, the price of food grains declined relative to other items of consumption.
- ❑ The low-income groups who spend a large percentage of their incomes on food benefited from this decline in relative prices.
- ❑ The Green Revolution enabled the government to procure a sufficient amount of food grains to build a buffer stock which could be used during the shortage or emergency.
- ❑ The government provided loans at a low-interest rate to small farmers and subsidized fertilizers so that small farmers could also have access to needed inputs. As a result, it benefited both small and big farmers.
- ❑ The Risk of the small farmers being ruined when pests attack their crops was considerably reduced because of the Green Revolution.

Failures of the Green Revolution Restricted to Limited Crops and Areas

Since the Green Revolution was mainly restricted to wheat and rice-growing states like Punjab, Haryana, Western Uttar Pradesh and Andhra Pradesh, these states became rich. Other states where the Green Revolution did not spread remain poor. Regional imbalances also widened as income and wealth inequalities.

Partial Removal of Poverty

The revolution brought about changes which removed poverty but not from everywhere. The benefit was reaped only by rich farmers with large holdings. This caused widespread unrest among poor cultivators in many parts of the country.

Differential Gains

The gains of the revolution were not uniformly distributed all over the country. The new strategy was characterized by the adoption of HYV seeds, fertilizers, irrigation machinery etc. The regions which were better endowed with these elements were the first to adopt the modern inputs and thus, reap the benefits.

The Debate Over Subsidies

Meaning of subsidy: A subsidy is an assistance paid to a business or economic sector.

Most subsidies are made by the government to producers or distributed as subventions in an industry to prevent the decline of that industry or an increase in the prices of its products or simply to encourage it to hire more labour (as in the case of a wage subsidy).

Examples are subsidies to encourage the sale of exports, subsidies on some foods.

- It is generally agreed that it was necessary to use subsidies to provide an incentive for adoption of the new HYV technology by farmers in general and small farmers in particular.
- Subsidies were, therefore, needed to encourage farmers to test the new technology. Some economists believe that once the technology is found profitable and is widely adopted, subsidies should be phased out since their purpose has been served.
- Further, subsidies are meant to benefit the farmers, but a substantial amount of fertilizers subsidy also benefits the fertilizer industry; and among farmers, the subsidy largely benefits the farmers in the more prosperous.
- Therefore, it is argued that there is no case for continuing with fertilizer subsidies; it does not benefit the target group and it is a huge burden on the government's finances.
- On the other hand, some believe that the government should continue with agricultural subsidies because farming in India continues to be a risky business. Most farmers are very poor, and they will not be able to afford the required inputs without subsidies.

Effects of Subsidies:

- By the late 1960s, Indian agricultural productivity had increased sufficiently to enable the country to be self-sufficient in food grains.
- On the negative side, some 65 per cent of the country's population continued to be employed in agriculture even as late as 1990.
- In India, between 1950 and 1990, the proportion of GDP contributed by agriculture declined significantly but not the population depending on it (67.5 per cent in 1950 to 64.9 per cent by 1990).

INDUSTRY AND TRADE

Economists have found that poor nations can progress only if they have a good industrial sector. The industry provides employment which is more stable than the employment in agriculture; it promotes Modernisation and overall prosperity. It is for this reason that the five-year plans place a lot of emphasis on industrial development.

Need for Development of Industry

- At the time of independence, the variety of industries was very narrow- largely confined to cotton textiles and jute.
- There were two well-managed iron and steel firms — one in Jamshedpur and the other in Kolkata — but we needed to expand the industrial base with a variety of industries if the economy was to grow.
- The industry provides employment which is more stable than the employment in agriculture; it promotes modernization and overall prosperity.

Question of Public sector or private sector

The big question facing the policymakers was -what should be the role of the government and the private sector in industrial development?

- At the time of independence, Indian industrialists did not have the capital to undertake investment in industrial ventures required for the development of our economy; nor was the market big enough to encourage industrialists to undertake major projects even if they had the capital to do so.
- It is principally for these reasons that the state had to play an extensive role in promoting the industrial sector. Besides, the decision to develop the Indian economy on socialist lines led to the policy of the state controlling the commanding heights of the economy, as the Second Five Year plan put it.
- Private sectors had their importance, as they ensure better utilisation of resources and helps to accelerate economic growth. However, the policies of the private sector would have to be complementary to those of the public sector, with the public sector leading the way.

Industrial Policy Resolution 1956 (IPR 1956)

In accordance with the goal of the state controlling the commanding heights of the economy, the Industrial Policy Resolution of 1956 was adopted.

This resolution formed the basis of the Second Five Year Plan, this plan emphasis to build an economic system based on the socialist pattern of society.

The objective of IPR 1956:

- ☐ Improvement in living standards and working conditions for the mass of the population.
- ☐ Reduction in income and wealth disparities Prevention of private monopolies and concentration of economic power in different fields in the hands of small numbers of individuals.
- ☐ Sought to accelerate the rate of economic growth and speed up industrialisation to achieve a socialist pattern of society.

IPR 1956 classified industries into three categories:

- ❖ The first category comprised industries which would be exclusively owned by the state. (Schedule A industry)
- ❖ The second category consisted of industries in which the private sector could supplement the efforts of the state sector, with the state taking the sole responsibility for starting new (Schedule B industry)
- ❖ The third category consisted of the remaining industries which were to be in the private sector. (Schedule C industry)

Features of IPR 1956

- ☐ Although there was a category of industries left to the private sector, the sector was kept under state control through a system of licenses.
- ☐ No new industry was allowed unless a license was obtained from the government
- ☐ Even an existing industry had to obtain a license for expanding output or for

diversifying production (producing a new variety of goods).

The rationale behind the license system

- This policy was used for promoting the industry in backward regions; it was easier to obtain a license if the industrial unit was established in an economically backward area.
- Besides, 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**.
- This was meant to ensure that the number of goods produced was not more than what the economy required. License to expand production was given only if the government was convinced that the economy required a larger quantity of goods.

The argument in favour of the public sector

The contribution made by the public sector was significant and public sectors act as an engine of our Economic growth:

1. **Creation of a strong industrial base:** Heavy industries required huge investment and incurred no profit in a short period, the private sector was unwilling to take part in these fields of production. Therefore, the public sector undertakings created a strong industrial base by developing heavy and capital-intensive technique-based industries in India.
2. **Long-run gestation projects:** The private sector firms were reluctant to invest in long period projects as it was economically infeasible. Hence, the public sector made investments in long-run projects.
3. **Improving social welfare:** Public sector undertakings produced goods and services in the fields of health, education and infrastructural facilities such as hospitals, roads, highways, schools and electricity to improve the welfare of the nation.
4. **Reducing income inequality:** Since the government-owned and regulated public undertakings, the profit earned by them were spent on special welfare programmes and a certain amount of profit for industrial development. The government helped the poor to attain benefit from their regulation and thus promoted the equal distribution of income and wealth in the economy.
5. **Employment generation:** The public sector created substantial employment opportunities in a situation of the twin problems of poverty and unemployment.

The argument against public sector:

1. State enterprises continued to produce certain goods and services and monopolised them although this was not required.
An example is the provision of telecommunication service. This industry continued to be reserved for the Public Sector even after it was realised that private sector firms could provide better services. Due to the absence of competition they become complicit, even till the late 1990s, one had to wait for a long time to get a telephone connection.
2. Public enterprises indulge themselves in the businesses which did not require their involvement such as the establishment of Modern Bread, a bread-manufacturing firm (as if the private sector could not manufacture bread). The public sector still engaged in Hotel and tourist industry, which must be left for the private sector only.

3. Many public sector firms incurred huge losses but continued to function because it is difficult to close a government undertaking even if it is a drain on the nation's limited resources. They are a huge burden on government exchequer

Small-Scale Industry

The concept of small-scale industries was born in 1955, when the Village and Small-Scale Industries Committee, also called the Karve Committee, noted the possibility of using small-scale industries for promoting rural

- A '**small-scale industry**' is defined with reference to the maximum investment allowed on the assets of a unit.
- In 1950 a small-scale industrial unit was one which invested a maximum of rupees five lakhs; at present, the maximum investment allowed is rupees one crore.

Characteristic features of a small-scale industry

Labour intensive:

Small-scale industries are fairly labour-intensive. They provide an economic solution by creating employment opportunities in urban and rural areas at a relatively low cost of capital investment.

Flexibility:

Small-scale industries are flexible in their operation. They adapt quickly to various factors that play a large part in daily management. Their flexibility makes them best suited to constantly changing the environment.

One-man show:

A small-scale unit is generally a one-man show. It is mostly set up by individuals. Even some small units are run by partnership firm or company, the activities are mainly carried out by one of the partners or directors.

Use of indigenous raw materials:

Small-scale industries use indigenous raw materials and promote intermediate and capital goods. They contribute to faster balanced economic growth in a transitional economy through decentralization and dispersal of industries in the local areas.

Localised operation:

Small-scale industries generally restrict their operation to local areas to meet the local and regional demands of the people. They cannot enlarge their business activities due to limited resources.

Steps taken by the government to promote small scale industries

For the propose of shielding small scale industries from the large firms, the production of several products was reserved for the small-scale industry; the criterion of the reservation is the ability of these units to manufacture the goods.

They are also given concessions such as lower excise duty and bank loans at lower interest rates.

It aims at providing management and technical support to the current small and micro-entrepreneurs in rural areas.

TRADE POLICY: IMPORT SUBSTITUTION

Import Substitution is the process of replacing imports with goods produced indigenously is known as

import substitution.

In the initial phase, the trade policy of India followed was to protect domestic industries from foreign competition by charging high import duties or tariffs and by placing quantity quotas on imports.

Reasons for adopting the policy of Import Substitution

1. Initially, domestic industries need protection from foreign industries, as they cannot compete with the better quality and low price of the goods made in developed nations.
 2. Protection of domestic industries enabled them to learn to compete over time.
- Measures took for the successful implementation of Import Substitution:** Protection from imports took two forms: 1. Tariffs and 2. Quotas.

1. Tariffs are a tax on imported goods; India imposed very high taxes, this makes imported goods more expensive and discourage their use.
2. Quotas specify the number of goods and restrict the quantity of the goods which can be imported. The effect of tariffs and quotas is that they restrict imports and, therefore, protect domestic firms from foreign competition.

The implication of the policy of import substitution:

The policy of import substitution was adopted by India up to the sixth plan.

1. Import substitution saves valuable foreign exchange.
2. Protection from foreign competition enabled the development of indigenous industries in the areas of electronics and automobile sectors which otherwise could not have developed.

Effect of (IPR 1956) Policies on Industrial Development

The achievements of India's industrial sector during the first seven plans were impressive.

- The proportion of GDP contributed by the industrial sector increased in the period from 11.8 per cent in 1950-51 to 24.6 per cent in 1990-91.
- The six per cent annual growth rate of the industrial sector during the period is commendable.
- No longer was Indian industry restricted largely to cotton textiles and jute; in fact, the industrial sector became well-diversified by 1990, largely due to the public sector.
- The promotion of small-scale industries gave opportunities to those people who did not have the capital to start large firms to get into the business.
- Protection from foreign competition enabled the development of indigenous industries in the areas of electronics and automobile sectors which otherwise could not have developed.

The drawback of IPR 1956:

1. State enterprises continued to produce certain goods and services and monopolised them although this was not required.
An example is the provision of telecommunication service. This industry continued

to be reserved for the Public Sector even after it was realised that private sector firms could provide better services. Due to the absence of competition they become complicit, even till the late 1990s, one had to wait for a long time to get a telephone connection.

2. Public enterprises indulge themselves in the businesses which did not require their involvement such as the establishment of Modern Bread, a bread-manufacturing firm (as if the private sector could not manufacture bread). The public sector still engaged in Hotel and tourist industry, which must be left for the private sector only.
3. Many public sector firms incurred huge losses but continued to function because it is difficult to close a government undertaking even if it is a drain on the nation's limited resources. They are a huge burden on government exchequer.
4. The need to obtain a license to start an industry was misused by industrial houses; a big industrialist would get a license not for starting a new firm but to prevent competitors from starting new firms.
5. The excessive regulation of what came to be called the permit license raj prevented certain firms from becoming more efficient. More time was spent by industrialists in trying to obtain a license or lobby with the concerned ministries rather than on thinking about how to improve their products.

Owing to all these conflicts, economists called for a change in our policy. This, along with other problems, led the government to introduce a new economic policy in 1991.

NCERT Questions and Answers

1. Define a plan.

A plan specifies the set of objectives to be achieved within a specified period of time.

Economic planning is the strategy to utilise the resources of the country optimally to achieve the predetermine Economic goals or objectives.

It is the assessment, allocation, mobilisation and optimum utilisation of resources for the welfare of the people.

2. Why did India opt for planning?

India opted for planning because of the following reasons:

- At the time of independence, the unemployment rate was very high, and the Per Capita Income and Gross Domestic Product were very 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.

Thus, India opted for planning to fight against backwardness and to start the process of economic development so that scars of Colonial government could have been removed.

3. Why should plans have goals?

In India, there are limited resources to fulfil unlimited wants. So, it was especially important 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.

All plans have specific targets so that work can be done more efficiently and is accomplished on a priority within the specific period of time.

If a plan has no specific goal, then the plan would be directionless and will lead to wastage of resources in an economy. Hence, plans should specify goals to be achieved within a definite period.

4. What are High Yielding Variety (HYV) seeds?

High yielding variety (HYV) seeds are also known as miracle seeds. The use of HYV seeds with a regular supply of water, use of pesticides and fertilisers would result in high production levels.

5. What is the marketable surplus?

The marketable surplus is the difference between the total agricultural output produced by farmers and the part of the total agricultural output used for their self-consumption, i.e. the part of agricultural production which is sold in the market by farmers.

6. Explain the need and type of land reforms implemented in the agriculture sector.

India needs land reforms for the following reasons:

Unfair land revenue system: The colonial government in India introduced various systems of land settlement. The zamindari system was one such land settlement system. Under this system, zamindars were owners of the land and collected rent from cultivators without any contribution to the improvement of the farm.

Low productivity: The Indian agricultural sector was deprived of irrigation facilities and technology advancement. As a result, the production of the agricultural sector was solely dependent on the monsoon. This created an adverse situation for farmers and led to a low level of agricultural productivity.

Landholding size: Due to sub-division and fragmentation of agricultural holding, the adoption of advanced technology in the agricultural sector was exceedingly difficult.

Types of land reforms implemented in the agricultural sector:

- Abolition of intermediaries: The idea behind the abolition of intermediaries was that ownership of land will motivate cultivators to improve agricultural production with a lot of efforts and investment. Nearly, 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. Thus, the ownership of land motivated them to make a profit from the increased level of agricultural production.
- Land ceiling: Under the land ceiling policy, a limit was set for individuals to own a maximum size of land. This policy helped to reduce inequality in the agricultural sector. By fixing a ceiling, surplus land can be redistributed among landless cultivators and small farmers. On the other hand, the minimum limit will prevent them from holding below the minimum size of land.
- Regulation of rent: All the states enacted laws to determine the rent payable by

tenant cultivators. However, this rent structure varied between 30% and 40% of produce in each state.

- Landholding consolidation: Converting various small parts of landholders into one plot is called land This helped to bring the scattered and fragmented land into one big piece and helped farmers to use the same for productive purposes.

7. What is the Green Revolution? Why was it implemented and how did it benefit the farmers? Explain in brief.

Green Revolution refers to an increase in the production of food grains due to the use of high yielding variety (HYV) seeds, use of fertilisers, pesticides and irrigation facilities. The Green Revolution ensured food security to the Indian population. The motive behind implementing the Green Revolution was to increase agricultural productivity.

Reasons for implementation of the Green Revolution:

At the time of independence, a large chunk of farmers was dependent on the monsoon due to which they faced innumerable problems in farming activities.

The technology and machinery used in farming were obsolete which resulted in low agricultural productivity.

Indian agriculture suffered from low productivity of food grains as more emphasis was given to cash crops during the colonial rule. This resulted in a shortage of food grains in India.

Benefits to farmers:

This was important because nearly 75% of the country's population was engaged in this sector. This resulted in a significant increase in the production of food grains. It results in a marketable surplus with farmers and increased their earnings significantly.

8. Explain 'growth with equity' as a planning objective.

One of the important objectives of planning is to get stable growth with equity in the economy. Growth refers to an increase in the level of national income (i.e. increase in production of final goods and services by the residents of the country) over a period of time

Equity refers to equitable distribution of the national income.

For every nation, it is especially important to have growth along with equity. As a country can have high growth and have most of its people living in poverty. It is important to ensure that the benefits of economic prosperity reach the poor sections as well instead of being enjoyed only by the rich. So, in addition to growth, equity is also important.

Growth with equity ensures, Every Indian should be able to meet his or her basic needs such as food, a decent house, education and health care and inequality in the distribution of wealth should be reduced.

9. Does modernisation as a planning objective create a contradiction in the light of employment generation? Explain.

In short run, Yes, modernisation as a planning objective create contradiction to a certain extent in the light of employment generation.

Modernization as a planning objective implies the use of advanced technology. Advanced technology requires less labour per unit of output. Thus, modernization creates unemployment in the short run.

However, in the long run, it does not have any negative impact on employment generation. In fact, modernisation and employment generation go hand in hand.

For example, the use of modern technology in the factory can lead to an increase in the level of output. Similarly, a farmer can produce more by using HYV seeds rather than using conventional ones. In the long run, output increases due to modernisation leading to an increase in income of the people in society. This further increases the demand for goods and services in the market. Hence, the production of goods will be increased to meet the demand of people resulting in the generation of employment opportunities in the economy.

10. Why was it necessary for a developing country like India to follow self-reliance as a planning objective?

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.

A developing nation like India needs 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.

11. What is the sectoral composition of an economy? Is it necessary that the service sector should contribute maximum to the GDP of an economy? Comment.

The sectoral composition of an economy is the contribution of sectors such as the agricultural sector, service sector and industrial sector to the GDP of an economy.

Yes, the service sector must contribute maximum to the GDP of an economy. When an economy grows, the economy's dependence on the agricultural sector will decrease to the minimum level and the share of the industrial and service sectors in the total GDP will increase over the years.

The growth in the performance of the service sector with a higher contribution to the total GDP is an indication of economic development.

12. Why was the public sector given a leading role in industrial development during the planning period?

Public sector enterprises are owned and managed by the government.

At the time of independence, Indian industrialists did not have the capital to undertake investment in industrial ventures required for the development of our economy; nor was the market big enough to encourage industrialists to undertake major projects even if they had the capital to do so.

It is principally for these reasons that the state had to play an extensive role in promoting the industrial sector. Also, since Public sectors work to ensure social welfare rather than profit, it would have led to equity in society.

- 13. Explain the statement that green revolution enabled the government to procure sufficient food grains to build its stocks that could be used during times of shortage.**

Green Revolution is a sustained increase in the production of food grains. This revolution was made possible by using high yielding variety (HYV) seeds. Farmers were able to produce surplus food grains, i.e. more than the required food grains.

This surplus was purchased by the government to maintain the buffer stock. This buffer stock was used by the government in times of shortage.

Hence, the Green Revolution enabled the government to procure sufficient food grains to build its stocks which could be used during times of shortage

- 14. While subsidies encourage farmers to use new technology, they are a huge burden on government finances. Discuss the usefulness of subsidies in the light of this fact.**

It has been rightly said that subsidies encourage farmers to use new technology, but they are also a huge burden on government finances.

Points for the usefulness of subsidies:

Any new technology will be looked upon as being risky by farmers. Subsidies were, therefore, needed to encourage farmers to use the new and costlier technology.

Most farmers in India are very poor, and they will not be able to afford the required inputs without subsidies.

The abolishment of subsidy will violate the goal of equity because it raises differences between poor and rich farmers in India.

Points against subsidies:

Some economists are of the view that once the technology is widely accepted, the government should stop providing goods at subsidised rates.

Subsidies are provided to benefit farmers, but it has been observed that the fertiliser industry has benefited more than farmers.

Also, farmers from prosperous regions benefited from subsidies more than farmers from poor areas. Hence, it has been argued that the fertiliser subsidy should not be continued as it failed to serve the target group. However, other economists were in favour of continuing the subsidy as farming is the most important business in India.

- 15. Why, despite the implementation of the green revolution, 65 per cent of our population continued to be engaged in the agriculture sector till 1990?**

Implementation of the Green Revolution in the agricultural sector resulted in a significant increase in agricultural output, but the same output could have been increased with fewer workers in the agricultural sector.

During 1950-1990, the service sector and industry sector were unable to absorb excess agricultural workers. This was the main reason that 65% of the Indian population continued to engage in the agricultural sector until 1990. This led to a disguised unemployment situation in agriculture.

- 16. Though the public sector is very essential for industries, many public sector undertakings incur huge losses and are a drain on the economy's resources. Discuss the usefulness of public sector undertakings in the light of this fact.**

Yes, it is true that although the public sector is essential for industries, 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:

- **Creation of a strong industrial base:** Heavy industries required huge investment and incurred no profit in a short period, the private sector was unwilling to take part in these fields of production. Therefore, the public sector undertakings created a strong industrial base by developing heavy and capital-intensive technique-based industries in India.
- **Long-run gestation projects:** The private sector firms were reluctant to invest in long period projects as it was economically infeasible. Hence, the public sector made investments in long-run projects.
- **Improving social welfare:** Public sector undertakings produced goods and services in the fields of health, education and infrastructural facilities such as hospitals, roads, highways, schools and electricity to improve the welfare of the nation.
- **Reducing income inequality:** Since the government-owned and regulated public undertakings, the profit earned by them were spent on special welfare programmes and a certain amount of profit for industrial development. The government helped the poor to attain benefit from their regulation and thus promoted the equal distribution of income and wealth in the economy.
- **Employment generation:** The public sector created substantial employment opportunities in a situation of the twin problems of poverty and unemployment.

Hence, we can conclude that public sector undertakings significantly contributed to the growth and development of the Indian industrial sector.

17. Explain how import substitution can protect domestic industry.

Import substitution is considered an inward-looking trade policy. It aimed to discourage the imports of those 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 in two ways by imposing tariffs and quotas on imported goods.

1. Tariffs are taxes levied on imported goods.
2. Quotas are the specified quantity which can be imported from foreign countries.

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

18. Why and how was the private sector regulated under the IPR 1956?

IPR 1956 classified industries into 3 categories:

The first category comprised industries which would be exclusively owned by the state. (Schedule A industry)

The second category consisted of industries in which the private sector could supplement the efforts of the state sector, with the state taking the sole responsibility

for starting new units. (Schedule B industry)

The third category consisted of the remaining industries which were to be in the private sector. (Schedule C industry)

Although there was a category of industries left to the private sector, the sector was kept under state control through a system of licenses.

➤ **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.

Besides, 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**.

❑ **Even an existing industry had to obtain a license for expanding output or for diversifying production (producing a new variety of goods).**

This was meant to ensure that the number of goods produced was not more than what the economy required. License to expand production was given only if the government was convinced that the economy required a larger quantity of goods.

19. Match the following:	
1. Prime Minister	A. Seeds that give a large proportion of output
2. Gross Domestic Product	B. Quantity of goods that can be imported Product
3. Quota	C. Chairperson of the planning commission
4. Land Reforms	D. The money value of all the final goods and services produced within the economy in one year.
5. HYV Seeds	E. Improvements in the field of agriculture
2. Subsidy	F. The monetary assistance given by government for production activities.

19.

1. Prime Minister	Chairperson of the planning commission
2. Gross domestic product	The money value of all the final goods services produced within the economy in year
3. Quota	Quantity of goods which can be imported

4. Land reforms	Improvement in the field of agriculture increase its productivity.
5. HYV seeds	Seeds that give large output
6. Subsidy	The monetary assistance given by government for production activities