

Chapter 2

Indian Economy 1950-90

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2.1: Three types of Economic Systems prevailing in the World

1

CAPITALISM: All means of production are owned by individuals or group of individuals. Also called market economy, where goods & services are produced by the Private Sector. Central problems are solved by price mechanism or market forces of demand & supply.

2

SOCIALISM: Means of production are owned by the Govt. Goods & services are produced by the Public Sector. Central problems are solved by economic planning. Also called a planned economy.

3

MIXED ECONOMY: Under this the Govt. & the market together solve the central problems. The Private and Public sectors co-exist.

INDIA chose to be a mixed economy, with greater emphasis on Public Sector.

2.2: PLANNING COMMISSION OF INDIA

The Indian Planning Commission was set-up in 1950, with the then Prime Minister (Pt. Jawahar Lal Nehru) as its Chairperson.

Planning Commission was replaced by NITI (National Institution for Transforming India) Aayog on January 1, 2015. At Present PM, Mr. Narendra Modi is its Chairperson.



GOALS OF FIVE YEAR PLANS:

These have been varying from plan to plan, yet the first 7 plans have had the following 4 common goals:

1. **GROWTH:** means increase in a country's productive capacity i.e. an increase in its GDP or PCI. Consider the GDP as a cake, the bigger the cake the bigger would be the share of people in this cake. The three sectors of the economy, namely agriculture, industry and service contribute to the GDP .Contribution made by each of these sectors makes up the structural composition of the economy.
2. **MODERNISATION:** Production of goods and services should be increased by using modern technology, for example farmers using Green Revolution to increase their output. Along with the use of new technology, people's social Outlook should also change that is from a traditional society we should move to a modern society, for example giving equal status to women & to all the castes etc.

3. SELF RELIANCE: this means developing by using own resources rather than depending on imports. So we followed the policy of import substitution as we feared that imports would interfere with our sovereignty.

4. EQUITY: Growth by itself does not ensure a high standard of living for all the people. It has to be ensured that the benefits of growth reach the poorest of all. This means that there should be equality in the economy, i.e., the benefits of growth should percolate to the lowest level.



2.3: AGRICULTURE

The following two policy decisions were adopted to bring about equity and growth in agriculture.

A) Land reforms: These are the improvements brought about in the land tenure system (system of land ownership).

B) Green Revolution: Refers to the large increase in the production and productivity of food grains through the use of miracle seeds and modern technology.



A) LAND REFORMS

Measures adopted under Land Reforms:

1. Abolition of Intermediaries- Intermediaries like Zamindars, jagirdars etc, who collected rent from tillers, were to be abolished.
2. Granting ownership rights to small farmers who actually cultivate the land.
3. Land ceiling- fixing the maximum size of landholdings which an individual could own.

All the above measures aimed at reducing inequalities in land ownership and motivating the tillers to make improvements to raise the output.



Drawbacks of the land reforms:

1. The goal of equity was not fully served by 'abolition of intermediaries' and the policy of 'land to the tiller' due to the following reasons:
 - *Even when the tillers were given ownership of land, the poorest of the agricultural labourers did not get land and didn't benefit from land reforms.
 - *The land ceiling legislation also faced hurdles. The big landlords challenged the law in the courts, delaying its implementation. They used this delay to register their lands in the name of close relatives and retain ownership.
2. Land reforms were successful ONLY in Kerala and West Bengal because these states' governments were committed to the policy. Unfortunately, other states did not implement and vast inequality in landholding continues till today.

B) GREEN REVOLUTION:

Refers to the large increase in the production of foodgrains through the use of HYV (High Yielding Variety) seeds, regular water supply, fertilizers & pesticides in correct proportions. It also requires the use of modern tools.

Phase I, launched in mid-1960s, wasn't very successful.

Phase II, launched in mid-1970s, benefitted many states & crops.



Role of government in ensuring that Green Revolution benefited small farmers as well:

1. The government provided loans at a low interest rate to small farmers.
2. The government also provided subsidised fertilisers so that small farmers could also have access to the needed inputs.
- 3 The risk of the small farmers being ruined when pests attack their crops was reduced by the training given by Government research institutes.



Benefits of green revolution to the Indian economy:

- It increased the total food grain production and farm productivity, i.e., yield per hectare.
- Farmers could earn a higher income as they had a marketable surplus.
- A greater output helped in lowering the prices of food grains. This benefitted the consumers, specially the poor who spend a large part of their income on food.
- India became self sufficient in the production of food grains, earlier these had to be imported.
- Government was able to procure food grains and keep as buffer stock with FCI(Food Corporation of India), which could be used in days of shortage.

Critical Evaluation of Green Revolution:

1. The farmers who could benefit from HYV seeds required reliable irrigation facilities as well as the financial resources to purchase fertiliser and pesticide, which small farmers could not afford. Thus, green revolution increased the inequalities between small and big farmers—since only the big farmers who could afford the required inputs reaped the benefits of the green revolution.
2. In the first phase of the green revolution use of HYV seeds was restricted to a few states such as Punjab, Andhra Pradesh and Tamil Nadu. Further, the use of HYV seeds primarily benefited the wheat growing regions only. However, in the second phase benefits of HYV technology spread to a larger number of states and benefited more variety of crops.
3. The HYV crops were also more prone to pest attack and the small farmers who adopted this technology could lose everything. Hence it was a risky choice.



The Debate Over Subsidies

Arguments against subsidies

1. Once the technology was found profitable and widely adopted, subsidies should have been eliminated since their purpose had been served.
2. Subsidies were meant to benefit the farmers but a substantial amount of fertiliser subsidy also benefited the fertiliser industry.
3. Among farmers, the subsidy largely benefited the farmers in the more prosperous regions. So, there is no case for continuing with fertiliser subsidies. It did not benefit the target group.
4. It was a huge burden on the government's finances.

Arguments in favour of subsidies:

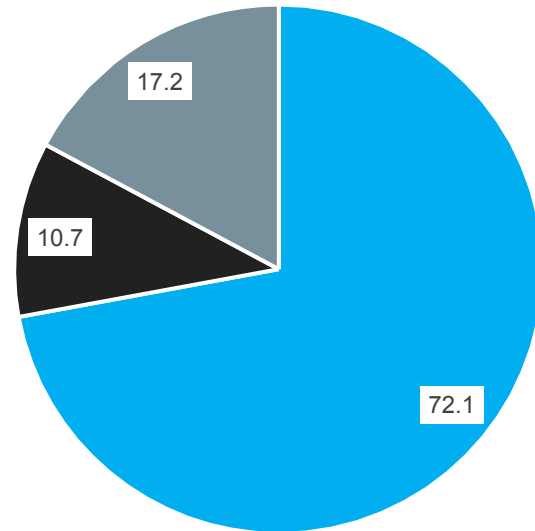
- New technology is considered risky by farmers. Subsidies were needed to encourage rich and small farmers to use the new HYV seeds.
- The government should grant agricultural subsidies as farming in India continues to depend on rainfall and is risky.
- Most farmers in India are very poor and can't afford the required inputs without subsidies.
- Eliminating subsidies will increase the inequality between rich and poor farmers and violate the goal of equity.
- The correct policy is not to abolish subsidies but to take steps to ensure that only the poor farmers enjoy their benefits.



Trends in occupational structure of Indian economy during 1950-51 (in %)

Sector	Workforce 1950-51
Agriculture	72.1
Industry	10.7
Services	17.2

Workforce 1950-51 (in%)

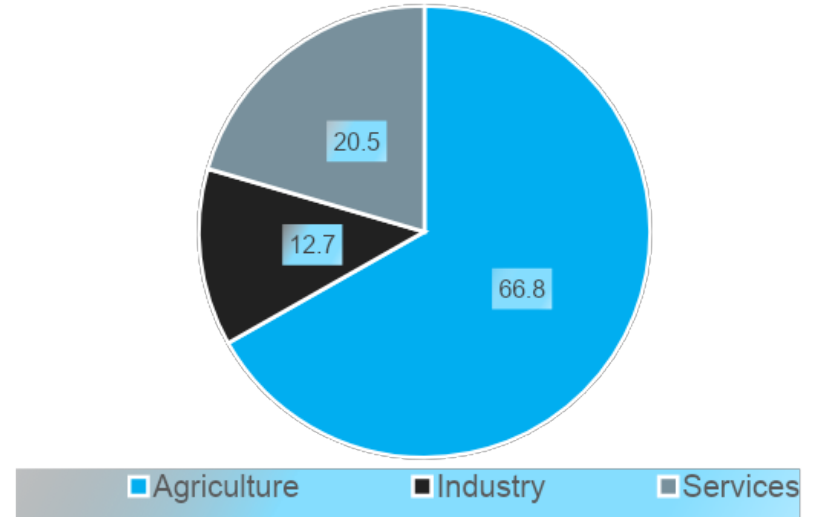


■ Agriculture ■ Industry ■ Services

Trends in occupational structure of Indian economy during 1990-91 (in %)

Sector	Workforce(1990-91)
Agriculture	66.8
Industry	12.7
Services	20.5

Workforce (in %), 1990-91



Despite Green revolution, around 67% of our population was engaged in agriculture till 1991 due to disguised unemployment and lack of suitable jobs in the other 2 sectors.



2.4: INDUSTRY

The Indian Planners laid emphasis on Industrial development:

- *They realised that a poor nation like India could progress only if it has a good industrial base.
- *Industry promotes modernisation.
- * It fulfills citizen's needs.
- *Provides employment which is more stable than agriculture.



India adopted a heavy industry based policy and a socialist pattern of society. Thus a leading role was assigned to the PUBLIC SECTOR because:

- * Just after independence, Indian industrialists did not have sufficient capital to undertake big industrial projects. Thus only Govt. could undertake these.
- *The market was not big enough to motivate private producers to set up industries.
- * Private sector works only for profits, while public sector works for welfare by providing items free or at a cheaper rate, specially to the poor.
- *Govt. sets up units even in backward regions, thus bringing about regional balance.

Industrial Policy Resolution 1956 (IPR 1956)

This resolution was the basis of the 2nd Five Year Plan, which tried to build a socialist pattern of society. The Industrial Policy Resolution, 1956 classified industries into three categories:

1. The first category comprised industries which would be exclusively owned by the state.
 2. 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.
 3. The third category consisted of the remaining industries which were to be in the private sector.
- These were controlled by a system of licenses. A license had to be obtained to set up new industries or to expand an existing industry.



SMALL SCALE INDUSTRY

In 1955, the Village and Small-Scale Industries Committee, also called the Karve Committee was set up by the Government. In 1950, a small-scale industry was defined as the one which invested a maximum of Rs.5 lakh, while at present the maximum investment allowed is Re. 1 crore (as per NCERT).

[As per latest data the max investment limit of small scale industries is Rs.5 Crore]



Why did the Govt. promote small-scale industry?

- The small-scale industries (SSIs) are more 'labour intensive' i.e., they use more labour than the large-scale industries and, therefore, generate more employment.
- They produce consumer goods & low value items which meet the requirements of the poor.
- Help in earning foreign exchange through export of items like- handicrafts, jewellery, sports goods, leather items etc.
- Large scale industries lead to concentration of wealth in a few hands, while SSIs distribute wealth more equitably



2.5: INDIAN TRADE POLICY:



It is also called Import Substitution Policy
OR

Inward Looking Trade Strategy:

This policy aimed at replacing imports with domestic production, i.e. trying to produce most of the goods and services within the country.

Reasons for adopting Import Substitution Policy:



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graph TD; A[Reasons for adopting Import Substitution Policy:] --> B[Protect Indian Industry from foreign competition.]; A --> C[Fear due to colonial past. Avoid foreign interference in internal matters.]; A --> D[Avoid spending of foreign exchange on luxury items.];
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Protect Indian Industry from foreign competition.

Fear due to colonial past. Avoid foreign interference in internal matters.

Avoid spending of foreign exchange on luxury items.



Two ways of Restricting Imports: (Or Trade Barriers)

TARIFFS: are taxes imposed on imported products, which make them expensive and discourage their use.

QUOTAS: are the limitations imposed by Govt on the quantity or volume goods that can be imported.

Critical Evaluation of Industrial Policies (1950-90)

(A) Points in favour of the policies:

- *The contribution of industrial sector in the GDP increased from 11.8% in 1950 to 24.6% in 1990. This is an indicator of development.
- *The industrial sector grew by 6%p.a during this period.
- * This sector became diversified - Indian industries started producing a wide range of products - items from "A pin to a plane" were produced indigenously.



(B) Points against the Policies:

- *Public sector monopolised the production of certain items (Like Telecom-MTNL) and continued to produce consumer goods (Like-Bread) inefficiently, even though private sector could have produced these in a better manner.
- *Many state enterprises incurred huge losses and were still not shutdown to protect the jobs of workers and for the welfare of the citizens.
- *This Era was termed as Permit License Raj. Private industrialists spent more time on pleasing the Ministers and obtaining licences rather than focusing on their work. Getting a licence was a very time consuming process.
- *Protection of domestic industry from foreign competition made it inefficient and high cost. Private producers had no incentive to improve quality of products. The consumers had to buy high priced products and had no choice. It was an Era of shortages.

CONCLUSION:

ACHIEVEMENTS:

- India's GDP increased during the first 7 plans.
- Output of industrial sector grew & became diversified.
- We became self sufficient in food grain production due to Green Revolution.
- Land reforms were implemented in many states.

DRAWBACKS:

- Poor Performance of Public enterprises.
- Over protected and inefficient industries.
- Planners never thought of developing the export sector.
- Land reforms were not implemented in all states.