Indian Economy [1950 - 1990].

On 15th August 1947, India gained freedom. The most important work in front of the leaders of independent India was to decide the type of economic system most suitable for India; a system which would promote the welfare of all, rather than a few.

Meaning of Economic System:-

Economic system is defined as an arrangement by which the central problems of an economy are solved. There are many different forms of economic system. The three main types of economic system are:

1. Capitalist Economy.
2. Socialist Economy.
3. Mixed Economy.

An economy is an organisation of economic activities which provides people with the means to work and earn a living.

1. Capitalism:-
It is a system in which all basic problems of ~~any~~ economy i.e what, how and for whom to produce, are

solved by market forces i.e. demand and supply. All the factors of production are owned by private individuals. Competition is the main feature of the economy. Individual profit acts as incentive to work. There is no government interference. Eg:-

2. Socialism

It is a system in which all the basic problems of an economy i.e. what, how and for whom to produce are solved by economic planning or the government. In this economy, government plays a major role. All the factors of production are owned by government. Social welfare is the motive of functioning of the government. This economy is also called centrally planned economy. Eg:-

3. Mixed Economy:-

It is an economic system in which all basic or central problems of an economy are solved by both government or central planning authority and market mechanism or price mechanism, i.e. the forces of demand and supply.
It is because in this economy, there is co-existence of public and private sector, government or central planning authority takes decision overall especially

for public sectors while price mechanism works in private sector.

India adopted the Mixed Economy:-

After the freedom, leaders of independent India (like Jawaharlal Nehru) were confused with regard to economic system, to be followed in India.

- Some leaders were in favour of Socialist Economy.
However, in a democratic country like India, complete dilution of private ownership was not possible (as was possible in case of former Soviet Union).

- Capitalistic Economic System did not appeal to Jawaharlal Nehru, our first Prime Minister, as under this system, there would be less chances for improvement in quality of life of majority of people.

- As a result, Mixed Economy (which combined the best features of both Socialist and Capitalist Economy) was adopted by the Indian Economy.
In this view, India would be a socialist society, with a strong public sector, but also with private property and democracy.

Features of 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 private sector but no freedom in public sector.
3. Motive of production	Profit motive	Social Welfare	Profit motive in 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 public sector and limited role in private sector.

MEANING OF ECONOMIC PLANNING:

Economic Planning means planned co-ordination and utilisation of available resources in an economy to achieve certain pre-specified social and economic objectives in a time bound programme.

In 1950, Planning Commission was to be set up under the chairmanship of Jawaharlal Nehru, the then and the first Prime Minister of Independent India.

As per the Planning Commission:-

"Economic Planning means utilisation of country's resources into different development activities in accordance with national priorities", states Planning Commission.

The Industrial Policy Resolution of 1948 and the Directive Principles of the Indian Constitution assigned a leading role to the public sector in the development of the economy. The private sector was also encouraged to be part of the plan effort.

- For the development of Indian economy, it was necessary for the Government to 'plan' for the economy, known as Economic planning.

- Economic Planning can be defined as making major decisions (what, how and for whom to produce) by the conscious decision of a determinate authority on the basis of a comprehensive survey of the economy as a whole.

- The Industrial Policy Resolution of 1948 and the DPSP elements of the Indian Constitution assigned a leading role to the Public sector. Private sector was also encouraged to be part of the plan efforts.

- To make economic planning effective, the Government of India set up Planning Commission in 1950, with the Prime Minister as the Chairman.

- The purpose of the Commission was to carefully assess the human & physical resources of the country & to prepare plans for the effective use of resources.

- The Planning Commission fixed the planning period at five years, which began the era of 'First Five Year Plan'

The Goals of Five Year Plan :-

Due to limited resources, a choice has to be made in each plan about which of the goals is to be given primary importance.

A plan should have some clearly specified goals, that are :-

① GROWTH

② MODERNISATION

③ SELF - RELIANCE

④ EQUITY

(1) GROWTH :-

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

- It implies either a larger stock of productive capital,
- It implies a larger size of supporting services like transport and banking, or an increase
- Increase in the efficiency of productive capital and services.

- A good Indicator of ~~of~~ economic growth, in the language of economics, is steady increase in the Gross Domestic Product [GDP].
  The GDP is the market value of all the goods and services produced in the country during a year.

- Increase in GDP shows increased per head availability for all the individuals resulting in 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.

- In some countries, growth in agriculture contributes more to the GDP growth, while in some other countries growth in the manufacturing or service sector contributes more to GDP growth.

- In India, the share of agriculture in the GDP was more than 58 per cent - as we would expect for a poor country. But by 1998 the share of the service sector was 40.59 per cent. more than that of agriculture or industry, like what we find in developed countries.

(2) MODERNISATION:-

It refers to adoption of new technology, new methods of production and changes in social outlook.

- To increase the production of goods and services the producers have to adopt new technology.
  For example, a farmer can increase the output on the farm by using new seed varities instead of the using the old ones.
  Similarly, a factory can increase output by using a new type of machine.

- Modernisation also involves changes in social outlook such as the recognition that women should have the same rights as men.
  In a traditional society, women are supposed to remain at home while men work.
  A modern society makes the best use of the talents of women in the work place - in banks, factories, schools etc. - and such a society in most occasions is also prosperous.

③ SELF - RELIANCE :-

Self - Reliance means self - dependence or reducing dependence on imports of those goods which can be produced within the country itself.

- A nation can promote economic growth and modernisation by using its own resources or by using resources imported from other nations.
- The first seven five year plans gave importance to self - reliance which means avoiding imports of those goods and services which could be produced in India itself.
- This policy was considered a necessity in order to reduce our dependence on foreign countries, especially for food.
- It is understandable that people who were recently freed from ~~from~~ foreign domination should give importance to self - reliance.
- Further, it was ~~to~~ feared that our dependence on imported food supplies, foreign technology and foreign capital may make India's sovereignty vulnerable to foreign interference in our policies

④ EQUITY :- Equity refers to reduction in inequality of income or wealth, uplifting weaker sections of the society and a more even distribution of economic power.

* ~~Economic~~ A country ~~may~~ can have high growth, the most modern technology developed in the country itself, and also have most of its people living in ~~prof~~ poverty.
It is important to ensure that the benefits of economic prosperity reach the poor sections as well instead of being ~~emplo~~ enjoyed only the rich.

* So, in addition to growth, modernisation and self- ~~ref~~ reliance, equity is also important.

* 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.

AGRICULTURE:-

- At the time of independence, the land tenure system was characterised by intermediates (like zamindars) who merely collected rent (lagaan) from the actual tillers of the soil.

- The low productivity of the agricultural sector forced India to import food from the United States of America.

- The agricultural sector accounted for the largest share of workforce with approximately 75 per cent. So, agricultural development was focused right from the First Five Year Plans.

FEATURES :- (1950 - 1990). (or Problems) of Agriculture.

1. Low Productivity:-
Indian agricultural sector was known for its low productivity. Lack of knowledge was responsible for stagnation in this sector.

2. **Disguised Unemployment:-** It refers to a state in which more people are engaged in work than are really needed. There are very high incidents of disguised unemployment in the sector during 1950 and 1990.

3. **High dependency on Rainfall:-** Due to poor agricultural techniques, farmers depended largely on rainfall. There was minimum growth of this sector in the year that receives the least rainfall.

4. **Subsistence farming:-** It is the practice of growing crops only for one's own use without any surplus for trade. There was also very high incidents of subsistence farming.

5. **Outdated Technology:-** There were many obsolete ~~techniques~~ technologies and harvesting machines. Harvesting was generally done manually and was very tedious.

6. **Conflicts Between Tenant and landlords:-**

Farmers were often a part of a critical contract that bound them to their landlords. Landlords used to extract huge amount of interest from farmers and deprived them of their necessities.

Measures / Policies to Promote Growth in Agricultural Sector.

Land Reforms

(involves change in ownership of landholdings through abolition of intermediaries and land ceiling).

Green Revolution

(Refers to large increase in production of food grains due to use of HYV seeds)

★ LAND REFORMS :-

Land reforms primarily refers to change in the ~~~~ ownership of landholdings.

Land reform measures have been introduced by various underdeveloped and developing nations, for attaining a rational land distribution pattern and viable farming structure.

- There was a great need for land reforms in a country like India, where the majority of its population still depends on agriculture.

- Land Reforms were needed to achieve the objective of Equity in agriculture

→ Abolition of Intermediaries :-

Indian Government took various steps abolish intermediaries and to make tillers, the owners of land.

★ The idea behind this step was ~~to~~ that ownership of land would give incentives to actual tillers to make improvements (provided sufficient capital was made available to them).

★ The abolition of intermediaries brought 200 lakh tenants into direct contact with the government.

★ The ownership rights granted to tenants gave them the incentive to increase output and this contributed to growth in agriculture.

° However, the goal of equity was not fully served by abolition of intermediaries because of the following reasons :-

(i) In some areas, the former Zamindars continued to own large areas of land by making use of some loopholes in the legislation,

(ii) In some cases, tenants were evicted and zamindars claimed to be self-cultivators.

(iii) Even after getting the ownership of land, the poorest of the agricultural labourers did not benefit from land reforms.

→ LAND CEILING:-

Land ceiling refers to fixing the specified limit of land, which could be owned by an individual.

- Beyond the specified limit, all lands belonging to a particular person would be taken over by government and will be alloted to the landless cultivators and small farmers.
- The purpose of land ceiling was to reduce the concentration of land ownership in few hands.
- Land ceiling helped to promote equity in the agricultural sector.
- However, the land ceiling legislation was challenged by the big landlords. They delayed its implementation. This delay time was used by them to get the

land registered in the names of close relatives, thereby escaping from the legislation.

Conclusion:- land reforms were successful in Kerala and West Bengal because governments of these states were committed to the policy of land reforms. Unfortunately, other states did not have the same level of ~~continue~~ commitment and vast inequality in land holdings.

☆ New Agricultural strategy: Green Revolution in India.

The new agricultural strategy was adopted in India during the Third Five Year Plan, i.e. during 1960s. The traditional agricultural practices followed in India were gradually replaced by modern technology and agricultural practices. The aim of this strategy was to raise agricultural production and productivity in selected regions of the country through the introduction of modern inputs like fertilizers, credit, marketing facilities, etc.

Green Revolution:

- At the time of independence about 75% of the country's population was dependent on agriculture.

- India's agriculture vitally depends on the monsoon and in case of shortage of monsoon, the farmers had to face lot of troubles.

- Moreover, the productivity in the agricultural sector was very low due to use of outdated technology and absence of required infrastructure.

- As a result of intensive and continued efforts of many agricultural scientists, this stagnation in agriculture was permanently broken by the 'Green Revolution'.

Green Revolution refers to the large increase in production of food grains due to use of high yielding variety (HYV) seeds.
Green Revolution is the spectacular advancement in the field of agriculture.

HYV seeds: Main Reason for Agricultural Revolution:

Agricultural revolution occurred primarily due to the miracle of 'indiv wonder seeds (high yielding variety (HYV) of seeds), which raised agricultural yield per acre to incredible heights.

- These seeds can be used in those places where there are adequate facilities for drainage and water supply.
- As compared to other ordinary seeds, these seeds need heavy doses of chemical fertilisers (4 to 10 times more fertilizers) to get the largest possible production.
- So, to derive benefit from HYV seeds, Indian farmers need to have,
- Reliable irrigation facilities; and
- Financial resources (to purchase fertilizers & pesticides).

Indian Economy experienced the success of Green Revolution in 2 phases:-

WV Date __/__/__

1960s - 1975

(1) In the first Phase (Mid 60s to Mid 70s), the HYV seeds and their use was restricted to more affluent states (like Punjab, Andhra Pradesh, Tamil Nadu, etc). Further, the use of HYV seeds primarily benefitted the wheat growing regions only.

1975-1985

(2) In the second Phase (Mid 70s to Mid 80s), the HYV technology spread to a larger number of states and benefited more variety of crops.

Important Effects of Green Revolution:-

The spread of Green Revolution technology enabled India to achieve self-sufficiency in food grains. India was no longer at the mercy of America, or any other nation, for the food requirements.)

(1) Attaining Marketable Surplus:- Green Revolution resulted in Marketable Surplus.

[Marketable surplus refers to that part of agricultural produce which is sold in the market by the farmers after meeting their own consumption requirement.

- Growth in agricultural output makes a difference ~~tonto~~ to the economy only when large proportion of this increase is sold in the market.

- Fortunately, a good proportion of rice and wheat produced during the green revolution period was sold by the farmers in the market.

2. Buffer stock of Food Grains.

The green revolution enabled the government to procure sufficient amount of food grains to build a stock which could be used in times ~~in~~ of food shortage.

3. Benefit to low-income groups.

As large proportion of food grains was sold by the farmers in the market, their prices declined relative to other items of consumption.
The low-income groups, who spend a large percentage on their income on food, benefited from this decline in relative prices.

Risks involved Under Green Revolution:-

While the nation had immensely benefited from the green revolution, the technology involved was not free from risks.

(i) Rise of Pest Attack:-

The HYV crops were more prone to attack by pests. So there was a risk that small farmers who adopted this technology could lose everything in a pest attack. However, this risk was considerably reduced by the services rendered by research institutes established by the government.

(ii) Risk of Increase in Income Inequalities:-
There was a risk that costly inputs (HYV seeds, fertilizers, etc) required under green revolution will increase the disparities between small and big farmers since only the big farmers could afford the required inputs.

However, due to favourable steps taken by the government, these fears did not come true.

The government loans at low interest to small farmers so that they could also have access to the needed inputs.
Since, the small farmers could obtain the required inputs, the output on small farms equalled the output on large farms in the course of time. As a result, the green revolution benefitted the small as well as rich farmers.

Debate over subsidies to for Agriculture :-

Subsidy, in context of agriculture, means that the farmers get inputs at prices lower than the market price.

- During the initial phase of Green Revolution, new technology was looked upon as being risky by the farmers.
- So, it was necessary for the Government to grant subsidies to provide an incentive for adoption of the new HYV technology.
- However, with the passage of time, there has been debate over the huge amount of subsidies granted by the government.

Subsidies — The financial assistance or help provided by the government for production and consumption of certain type of goods & services

★ Economists in Favour of subsidies :-

1- The government should continue with agricultural subsidies as farming in India continues to be a risky business.

2- Majority of the farmers are very poor and they will not be able to afford the required inputs without the subsidies.

3- Eliminating subsidies will increase the income inequality between rich and poor farmers and will violate the ultimate goal of equity.

In brief, subsidies in India are necessary for poor and small farmers, to enable them to make use of modern agricultural techniques. Necessary steps should be taken to ensure that only the poor farmers enjoy the benefits of subsidies and not the fertiliser industry and big farmers.

Economists Against the Subsidies :-

1. According to some economists, subsidies were granted by the Government to provide an incentive for adoption

of the new HYV technology.
So, after the wide acceptance of technology, subsidies should be phased out as their purpose has been served.

2- Subsidies do not benefit the poor and small farmers (target group) as benefits of substantial amount of subsidy go to fertiliser industry and prosperous farmers.

Therefore, there is no case for continuing with subsidies as it does not benefit the target group and it is a huge burden on the government's finances.

INDUSTRIAL DEVELOPMENT.........

Economists have found that poor nations can progress only if they have a good industrial sector.
Industry provides employment, which is more stable than the employment in agriculture; it promotes modernisation and overall prosperity.
Due to this reason, Five Year Plans stressed a lot on the industrial development.

At the time of independence, the variety of industries was very limited or narrow. The cotton textile and jute industries were mostly developed in India. There were two well-managed iron and steel firms:- one in Jamshedpur and the other in Kolkata. So there was a strong need to expand the industrial base with a variety of industries.

Role of Public Sector in Industrial Development :-

At the time of independence, the big question facing the policy makers was to decide the role of government (public sector) and the private sector in industrial development.

there was a need for a leading role of the Public sector due to the following reasons:-

1. Shortage of Capital with Private Sector:-
Private entrepreneurs did not have the capital to undertake investment in industrial ventures, required for the development of Indian economy.
At the time of independence, Tatas and Birlas were the only well know Private entrepreneurs.
As a result, Government had to make industrial investment through Public sector Undertakings (PSU's).

2. Lack of Incentive for Private Sector:-
The Indian market was not big enough to encourage private industrialists to undertake major projects, even if they had capital to do so.
Due to the limited size of the market, there was low level of demand for the industrial goods.

3. Objective of Social welfare:-
The objective of equity and social welfare of the Government could be achieved through direct participation of the state in the process of Industrialisation.

As a result, state had complete control over those industries that were vital for the economy.
The policies of the private sector had to be complementary to those of the public sector, with public sector leading the way.

Industrial Policy Resolution 1956:-

Industrial Policy is a comprehensive package of policy measures which covers various issues connected with different industrial enterprises of the country.

- Industrial Policy is essential for devising various procedures, principles, rules and regulations for controlling industrial enterprises of the country.

- After the Industrial Policy, 1948, Indian economy had to face a series of economic and political changes, which necessitated the need for a fresh industrial policy for the country.
So, on 30th April 1956, a second Industrial Policy Resolution was adopted in India.