11th Standard- ECONOMICS

INDIAN ECONOMIC DEVELOPMENT

CHAPTER-2

INDIAN ECONOMY 1950-1990

- **Different Economic Systems**

- There are three forms of economic organization:

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 top the producers. The only aim is profit maximization 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 in accordance with the needs of the 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.

- **Economic Planning:** Means utilization of country's resources in different development activities in accordance with national priorities.
- India has completed its 12th five-year plan(FYP) and the 13^{th} FYP (2017-22) has started.

- **Goals of Planning in India**

- **Long Term Goals** (To be achieved over a period of 20 years)

Long Term Goals/Objectives of Planning

1) **Modernization** - Adoption of new technology and changes in social outlook.
2) **Self-reliance** - Reducing dependence on imports.
3) **Economic Growth** - Increase in the aggregate output of Goods & services.
4) **Equity** - Reduction in inequality of income and wealth.
5) **Full employment** - Refers to a situation when all the people in the working age group is actually engaged in some gainful employment.

- **Short Term Goals** (To be achieved over a period of five years)

Short Term Goals/Objectives of Planning

Short term objectives vary from plan to plan depending on current needs of the country. For example, first plan (1951-56) focused on higher agricultural production while in second plan (1956-61) shifted the focus from agriculture to Industry. In India growth and equity are the objectives of all the five year plans. The goal of current five-year plan (12th, 2012-17) is Inclusive Development.

- **AGRICULTURE**
- **Role of Agriculture**

Agriculture is the backbone of Indian economic system and economic activity. The role of agriculture can be clearly seen from the following:

1) Agriculture contributes significantly in national income.
2) It provides employment to a large labour force.
3) It provides the basis for industrial development.
4) A large portion of country's trade and services depends upon agricultural operations.

- **Main Features of Indian Agriculture**

1) Low productivity.
2) Disguised unemployment.
3) Dependence on rainfall.
4) Subsistence farming-objective of farmer is to secure subsistence for his family not to earn profit.
5) Traditional inputs.
6) Small holdings.
7) Backward technology.
8) Landlord tenant conflict.

- **Problems of Indian Agriculture**

  Statistics reveal that India poorly lags behind in both land and labour productivity, as compared to other countries.

1) **Institutional problems**
    a. Defective tenancy reforms.
    b. Lack of credit and marketing facilities.
    c. Size of holding.

2) **General Problems**
    a. Pressure of population on land.
    b. Land degradation.
    c. Subsistence farming.

3) **Technical Problems**
    a. Obsolete technique of production.
    b. Lack of irrigation facilities.
    c. Cropping pattern.

➢ **Reforms in Indian Agriculture**

- **Land Reforms**

1) Land reforms refer to changes bought about in the agrarian structure through direct intervention by the state.
2) To increase efficiency and productivity in agriculture.
3) Abolition of intermediaries.
4) Lack of political will.
5) Problems of voluntary surrender by tenants.
6) Inadequate proof of tenancy.

- **General Reforms**

1) Expansion of irrigation facilities.
2) Provision of credit.
3) Regulated markets and co-operative marketing societies.
4) Support price policy.

- **Green Revolution**

1) The HYVP, NAS or Green Revolution was launched in October 1965.
2) Use of package inputs.
3) Scientific rotation of crops.
4) Minor irrigation works were taken up.
5) Rise in production and productivity.
6) Increase in income.
7) Increase in employment.

ACHIEVEMENTS OF GREEN REVOLUTION

1) Rise in production and productivity.
2) Increase in income.
3) Rise in commercial farming.
4) Impact on social revolution-use of new technology HYV seeds, fertilisers etc.
5) Increase in employment.
6) Substantial Rise in Average.

FAILURES OF GREEN REVOLUTION

1) Restricted to limited crops and areas such as two crops wheat & rice growing states like Punjab, Haryana, U.P. and Andhra Pradesh.
2) Partial removal of poverty.
3) Neglected land reforms.
4) Increase in income disparity between small and big farmers.
5) Ecological degradation.

➢ **INDUSTRY**

- **Role of Industrial Sector of India**

Industrialization plays an important role in the economic development of a country. Industrially well developed economies are economically prosperous. Role of industrialization lies in:

1) Meeting ever rising demand.
2) Raising people's income.
3) High potential for growth.
4) Key to high volume of exports.
5) Provides employment.
6) Leads to modernisation.

Industrialisation is a pre-condition for the final take-off of an economy.

- **Industrial Development Since Independence 26.4.2010-11**

  Share of industrial sector in the GDP has increased upto 20% in 2013-14.

  The following important changes have taken place:

1) Development of infrastructure like power transport, communication, banking & finance, qualified and skilled human resource.
2) Much progress in the field of research and development.
3) Expansion of public sector.

4) Building up of capital goods industry.
5) Growth of non-essential consumer goods industries.

- **Problems of Industrial Development in India**

1) Sectoral imbalances- Agriculture and infrastructure have failed to provide the support to the industrial sector.
2) Regional imbalance- Restricted to few states.
3) Industrial sickness- which raised the problem of unemployment.
4) Higher cost of industrial product due to lack of healthy competition.
5) Dependence on the Government- for reduction in tax or duty to make import easier.
6) Poor performance of the public sector.
7) Under utilisation of capacity.
8) Increasing capital-output ratio.

- **Industrial Policy Resolution (IPR) 1956**

Industrial policy is an important instrument through which the govt. regulates the industrial activities in an economy. The 1956 resolution laid down the following objectives of industrial policy.

1) To accelerate the growth of industrialization.
2) To develop heavy industries.
3) To expand public sector.
4) To reduce disparities in income and wealth.
5) To prevent monopolies and concentration of wealth and income in the hands of a small member of individuals.

- **Features of Industrial Policy Resolution (IPR) of 1956**

1) New classification of Industries: Industries were classified into three schedule depending upon role of state.
    a. Schedule-A- 17 industries listed in schedule-A whose future development would be the responsibility of state.

b. Schedule-B- 12 industries were included in Schedule-B, Private sector could supplement the efforts of the Public Sector, with the state taking sole responsibility for starting new units.
c. Schedule-C - other residual industries were left open to private sector.

2) Stress on the role of cottage and small scale industries.
3) Industrial licensing: Industries in the pvt. sector could be established only through a license from the government.
4) Industrial concessions-were offered-pvt. entrepreneurs for establishing industry in the backward regions of the country. Such as tax rebate and concessional rates for power supply.

➢ **PUBLIC SECTOR**

Public sector consists of all the industrial and commercial enterprises which are owned by the govt. and managed either by the govt. or itself or by some other agencies, on behalf of the govt.

- **Role of Public Sector**

1) Lack of capital with the private entrepreneurs.
2) Lack of incentive among the Pvt. entrepreneurs demand due to limited size of the market.
3) Socialistic pattern of society-main aim of Govt. is to generate employment rather than profits.
4) Development of infrastructure.
5) Development of backward areas.
6) To prevent concentration of economic power
7) To promote import substitution.

- **Problems of Public Sector**

1) Unprofitable pricing.
2) Overstaffing.
3) Management gaps.
4) Underutilisation gaps.

5) Inadequate autonomy.
6) High losses.
7) Burden of sick units.

- **SMALL SCALE INDUSTRIES (SSI)**

A small scale industry is presently defined as the one whose investment does not exceed Rs. 5 crore.

- **Characteristics of SSI or Role of Small Scale Industries**

1) Labour intensive-employment oriented.
2) Self-employment.
3) Less capital intensive.
4) Export promotion.
5) Seed beds for large scale industries.
6) Shows locational flexibility.

- **Problems of Small Scale Industries**

1) Difficulty of finance.
2) Shortage of raw material.
3) Difficulty of marketing.
4) Outdated machines & equipment.
5) Competition from large scale industries.

- **FOREIGN TRADE**

At the time of independence raw material was exported from India to Britain in abundance, on the other hand finished goods from Britain were imported into India. Notably our balance of trade was favourable (exports > imports).

After independence India's foreign trade recorded a noticeable change such as:

1) Decline in percentage share of agricultural exports.
2) Increase in percentage share of manufactured goods in total exports.
3) Change in direction of export trade and import trade.

4) Decline of Britain as main trading Partner.

- **TRADE POLICY**

  In the first seven five year plans of India, the trade was commonly called an 'inward looking' trade strategy.

  This strategy is technically known as 'import substitution'. Import substitution means substituting imports with domestic production. Imports were protected by the imposition of tariff and quotas which protect the domestic firms from foreign competition. Impact of Inward looking Trade strategy on the domestic industry.

1) It helped to save foreign exchange by reducing import of goods.
2) Created a protected market and large demand for domestically produced goods.
3) Helped to build a strong industrial base in our country which directly lead to economic growth.

- **Criticism of Import Substituting Strategy**

1) It did not lead to growth.
2) Lack of competition implied lack of modernization.
3) Growth of inefficient public monopolies.
4) It did not lead to efficiency.

- **INDUSTRIAL LICENSING**

  Licensing is a tool for channelising scarce resources in predetermined priority sector of an economy. The Industries development and resolution act (IDRA) was enacted in 1951.

- **Main Objectives of IDRA act of 1951**

1) Regulation of industrial development in accordance with planned priorities.
2) Avoidance of monopoly.
3) Balanced regional development
4) Prevention of undue competition between large-scale industries and small scale industries.
5) Optimum utilisation of scarce foreign exchange resources. Under this act the following

were applicable.

- **<u>Criticism Against Industrial Licensing</u>**

1) There was an ad hoc system for accepting or rejecting an application for license.
2) The quality of techno economic examination conducted by Director General of technical development was generally poor.
3) Licensing policy resulted in under utilisation of capacity in many industries.
4) In reality, the policy helped large business houses in accumulating economic power.

- **PERMIT LICENSE RAJ**

  The licensing authorities many a times granted license to big business houses without proper scrutiny of their applications.