CHAPTER 2

INDIAN ECONOMY 1950-1990

- India opted for socialism being inspired from the extraordinary success results of planning of Soviet Unions.
- **Capitalist Economy** is an economic system in which the means of production are privately owned for profit motive, for example, Britain during the Industrial Revolution. The economic decisions are governed by the market forces- demand and supply. It is also known as **market economy**.
- **Socialist Economy** is an economic system in which the means of production are owned by the government, for example, USSR. The main motive for carrying out economic activities is to enhance welfare and service motive.
- **Mixed Economy** is an economic system in which the ownership of means of production is held both by the government as well as by the private individuals, for example, India is a mixed economy.
- An economic **plan** is a proposed list of goals that an economy wants to achieve within a specific record of time. It suggests the optimum ways to utilise the scarce available resources to achieve the enlisted goals.
- In India, planning is done for a period of five years; therefore, it is called **Five Year Plans**.
- The **Planning Commission** was set up in the year 1950 to conduct Five Year Plans with the Prime Minister as its chairman.

- **General Goals of Five Year Plans**
  - **Economic Growth** refers to the increase in the country's GDP over a period of time.
  - **Modernisation** is defined as greater acceptability and adoption of modern techniques and technology in order to increase the overall productivity and total volume of production of goods and services.
  - **Achieving the Status of Self Reliance-** It implies promoting economic growth by using a country's own resources. This reduces the economic dependence on the foreign countries and the country becomes self-reliable and self-sufficient.
  - **Equity** refers to equitable distribution of GDP so that the benefits due to higher economic growth are shared by all the sections of population. Equity implies egalitarian society with social justice.

- **Need for Land Reforms**

  - At the time of independence, Indian agricultural sector was featured with a very low productivity.
  - This was due to the prevalence of Land Settlement System namely, *Zamindari* system that exerted excessive pressure on the cultivators in the form of high taxes.
  - Moreover, the land holdings were small in size and scattered. This obstructed the use of modern farm techniques.
  - There were acute inequalities in land holdings.
  - Agriculture was basically of subsistence nature, i.e. primarily for self consumption and to earn livelihood.

- **Land ceiling** means legislated fixed (maximum) amount of land that an individual may hold. The two motives behind land ceilings were:
  - to promote equality of ownership of land holdings
  - to mitigate the concentration of land holdings in fewer hands.

- Due to introduction of use of HYV seeds, modern techniques and inputs such as, fertilisers, irrigation facilities, and subsidised credit by the government, the production of food grains increased nearly by 25% in the year 1967-68 . This substantial increase of food grains is known as **'Green Revolution'.**

- **Marketable surplus** refers to the difference between the total output produced by the farmer and his own-farm consumption. That is, the amount of the farm production that can be offered for sale in the market.

  Marketable surplus = Total farm output produced by farmer – Own consumption of farm output

- **Subsidy** means availing some important inputs to farmers at a concessional rate that is much lower than its actual market rate.

- **Arguments in favour of Subsidy**
  - Very important for marginal and landless farmers
  - Convinces farmers to adopt modern techniques
  - Helps in reducing rural inequalities
  - Facilitates farmers to undertake risks

- **Arguments against Subsidy**
  - Can be enjoyed by the potential farmers, thereby resulting in misallocation of resources
  - Manipulates the market price, for example, electricity is supplied at concessional rate to farmers that may lead to wastage of scarce resources.
  - Should be provided initially, but should be stopped at a later stage after assessing the performance.
  - Favours fertiliser industries, which need not to worry about their market share, and so, no attempts are taken to improve the quality of fertilisers.

- **Industrial Policy Resolution 1956** was a declaration of the government that was initiated with the purpose of rapid industrialisation to achieve high economic growth with social justice. The resolution formed the basis of second five year plan and a foundation stone to develop the socialist pattern of the society.
  The principal elements of IPR 1956 are:

  - Industries were classified into **three** categories:

    Category 1: industries established and developed exclusively owned by the state.
    Category 2: industries established both by private sector and public sector.
    Category 3: remaining industries were left to the private sector.

  - Industries in the private sector could be established **only after obtaining license** from the government.

  - Government offered various types of **industrial concessions** for establishing industries in the backward areas in order to promote industrialisation and to eradicate regional disparity.

- **Small Scale Industries (SSIs)** are the small industrial units that can have investment up to five lakh rupees. The features of SSIs are:
  - These serve as means to promote rural development and to reduce regional disparity- as recommended by *Karve Committee*.
  - As SSIs employ labour intensive techniques, so they can generate newer employment opportunities.
  - SSIs cannot compete with large firms; so they require protection by the government.
  - SSIs are given concessions in the form of lower excise duties and easy and cheaper loans.

- **Trade Policy: Import Substitution Industrialisation**
  - It refers to an inward looking trade strategy that aimed at substituting imports with the goods that can be produced domestically.
- **Importance of Import Substitution Industrialisation**
  - Insulated domestic industries from facing stiff competition from the foreign industries.
  - Provided domestic industries a protected environment to grow.
  - Helped to conserve scarce foreign exchange.
  - Provided enough scope to initiate industrialisation process in India.
  - Facilitated India to attain self-sufficiency and self-reliance, thereby reducing foreign dependence.

- **Tariffs** refer to the taxes imposed on the imported goods. Imposition of tariffs make imports relatively expensive than the domestic goods, thereby discouraging imports *indirectly*. Therefore, they help in reducing excessive burden on the scarce foreign exchange reserves.

- **Quantitative Restrictions (QRs)** refer to the restrictions in the form of limits or quotas on the amount of commodities that can either be imported or exported. QRs usually on imports (refers to non-tariff measures) that are imposed to discourage imports of foreign goods and to reduce Balance of Payment (BOP) deficits.

- **Quotas** are defined as the maximum quantity of goods that can be imported or exported by the domestic producers.

- **Achievements of Goals of Planning**
- There has been **increase in the national income** by 4.1 % per annum during the period of planning.
- **Per capita income has risen** at the rate of 2 % per annum after the initiation of planning process.
- The **rate of capital formation** (that depends on the rate of saving and investment) has significantly **increased.**
- The initiation of land reforms and substantial technological improvement are the two **significant achievements of planning in the agricultural sector.**

- **Failures of planning**
  - ***Significant Poverty***- Despite the regular and consistent efforts by the government, still a significant number of people (approximately 21.8 % of India's population) are still living below poverty line.
  - ***Unemployment***- Achievement of jobless economic growth confirms the failure of the plans to generate sufficient employment opportunities for the growing population. India, despite being a labour abundant country, employed capital intensive techniques to achieve economic growth.

- ***High Inflation Rates***- Due to the failure of plans to control inflation rates, the high rates of inflation has exaggerated the economic and income inequality between the rich and poor, further worsening the conditions of the poor.
- ***Inadequate Infrastructure***- The infrastructure continues to be inadequate to achieve high economic growth rates. Further, the quality of infrastructure, along with its inadequacy, has made it difficult to penetrate the benefits of economic growth to the majority of population.