INDIAN ECONOMY (1950- 1990)

Central Problems of an Economy The three main issues of an economy are:

1. **What to produce?** It involves deciding on the optimal mix of products and services to be generated, that is, picking things and services and the amounts of each that the economy should generate.
2. **How to Produce?** It involves identifying the technique of production, i.e. whether certain things are created with more labor and less capital (known as the Labour Intensive technique) or with more capital and less labor (known as the Capital Intensive Technique).
3. **For whom to produce?** It entails determining the distribution of production among persons, i.e., selecting the group of people who will eventually consume the items.

Types of economic system

1. **Capitalist Economy:** A capitalist economy is one in which the means of production are owned, controlled, and operated by private individuals. Production is done primarily to generate profits. The market forces of demand and supply answer the essential concerns of production (what, how, and for whom). Under a capitalist system, the three main challenges are tackled in the following way:
   - What to Produce: This system only produces things that can be profitably marketed in either the home or overseas markets.
   - How to Produce: Goods are made utilizing less expensive production procedures. When labor is cheap, labor-intensive techniques of production are used; when labor is expensive, capital-intensive methods of production are employed.
   - For whom to produce: In a capitalist society, products are allocated based on money or purchasing power rather than necessities. This means that a sick person will only be able to obtain medicine if he can pay it; otherwise, he will not be able to do so, even if it is urgent.

2. **Socialist economy:** A socialist economy is one in which the government owns, controls, and operates the means of production. Under a socialist economy, the three main difficulties are addressed in the following ways:
   - What to create: In a socialist society, the government selects what to create based on the needs of the people.
   - How to Produce: The government chooses how the commodities will be produced. For
   - whom to produce: Under socialism, distribution should be based on what individuals need rather than what they can afford to buy. A socialist country gives free healthcare to its inhabitants who require it.

3. **Mixed economy:** In a mixed economic system, both the public and private sectors have responsibilities in addressing key economic issues.
   - In a mixed economy, the government and market collaborate to address three key issues: what to produce, how to produce, and for whom to produce.
   - The private sector produces goods and services well, while the government provides essential goods and services that the market cannot.

ECONOMIC PLANNING

Following the adoption of the 'Mixed Economic System,' the next critical step for the government was to resuscitate the weak, sluggish, and stagnant economy inherited from British control.

- To grow the Indian economy, the government needed to 'plan' for it, which is known as Economic Planning.
- Economic planning is the deliberate choice of a specific authority to make significant economic decisions (what, how, and for whom to create) based on a complete examination of the whole economy.
- The Indian Constitution's Directive Principles and 1948 Industrial Policy Resolution emphasized the importance of the public sector. The private sector was also urged to participate in the planning initiatives.

- To make economic planning effective, the Government of India set up Planning Commission in 1950, under the chairmanship of the then Prime Minister Pandit Jawaharlal Nehru.
- The Planning Commission established the planning period at five years, ushering in the era of 'Five Year Plans'.

GOAL OF FIVE YEAR PLAN

The five-year plans have focused on removing the country's economic backwardness and developing India's economy. The five-year plans have also taken care to guarantee that the country's poorest citizens benefit from its economic success. Pandit Jawaharlal Nehru, our first Prime Minister, announced the first five-year plan in Parliament. The 12th Five Year Plan of the Government of India (2012-17), which began on April 1, 1951 and ended on March 31, 1956, was India's final five-year plan. In between these years, certain yearly plans were also implemented. Each five-year plan outlined India's development goals to guide progress.
Each five year plan listed the basic Goals of India's development, which served as the guiding principles of Indian planning.

1. Growth
2. Modernisation
3. Self-reliance
4. Equity

1. Growth

- Growth can be achieved through more productive capital, expanded supporting services such as transportation and banking, or improved efficiency of both.
- In economic terms, a constant increase in Gross Domestic Product (GDP) is a solid measure of economic growth.
- GDP refers to the market worth of all the final products and services produced in the country during a one-year period. An increase in GDP or the availability of products and services allows individuals to live a more diverse and fulfilling life.

- A country's GDP is based on three economic sectors: agriculture, industry, and services. In certain nations, agricultural expansion contributes more to GDP growth.
- In certain nations, agricultural expansion contributes more to GDP growth than service sector development.
- The contribution of each sector determines the structural makeup of the economy.

2. Modernisation

- Indian planners have long understood the importance of modernising society in order to improve people's level of living. Modernisation includes:
- Adoption of New Technologies- Modernisation seeks to boost output of goods and services via the application of modern technologies. For example, a farmer can boost agricultural productivity by employing new seed kinds instead of older ones. Similarly, a manufacturer can boost output by introducing a new type of machine.
- Change in social view- Modernisation necessitates changes in social outlook, such as gender empowerment or equal rights for women. A society will be more civilized and affluent if it takes use of women's skills in the workplace.

3. Self relience

- To encourage economic growth and modernization, the five-year plans emphasized the use of domestic resources to lessen our reliance on foreign nations. The policy of self-reliance was regarded necessary for two reasons.
- To decrease foreign dependence: As India has recently been emancipated from foreign domination, it is critical that we lessen our reliance on foreign nations, particularly for food. So, stres should be given to achieve self-dependence.
- To Avoid Foreign Interference: It was anticipated that dependency on imported food supplies, foreign technology, and foreign cash would enhance foreign intervention in our country's policies.

4. **Equity**
   - The objectives of growth, modernisation and self-reliance, by themselves, may not improve the kind of life, which people are living.
   - So, it is important to ensure that benefits of economic prosperity are availed by all sections (rich as well as poor) of the economy.
   - In addition to the objectives of growth, modernisation and self-reliance, equity is also important
   - According to Equity, every Indian should be able to meet his or her basic needs (food, house, education and health care) and inequality in the distribution of wealth should be reduced
   - In short. Equity aims to raise the standard of living of all people and promote social justice.

AGRICULTURE

At the time of independence, the land tenure system was characterized by intermediaries (such as zamindars) who only collected rent (lagaan) from the real tillers of the soil. Due to low agricultural production, India relied on food imports from the US. The agriculture industry employed around 70-75% of the workforce. As a result, agricultural growth became a priority from the start of the First Five Year Plan.

Features (or problems) of agriculture.

1. **Low Productivity:** The Indian agriculture industry was recognized for its low productivity. The stagnation in this area was due to a lack of expertise.
2. **Disguised Unemployment:** A situation in which more individuals are working than are actually needed. Between 1950 and 1990, there was a significant incidence of disguised unemployment in the industry.
3. **Heavy reliance on rainfall.** Farmers relied heavily on rain due to inadequate farming skills. This industry saw the slowest growth during the year with the least rainfall.
4. **Subsistence farming.** It is the practice of raising crops only for one's personal use with no surplus for commerce. There were also several cases of subsistence farming.

5. **Outdated Technology:** There were several outmoded technology and harvesting machines. Harvesting was often done manually and was laborious.
6. **Tenant-Landlord Conflicts:** Farmers were frequently involved in a key contract that connected them to their landlords. Landlords used to take a large amount of interest from farmers while depriving them of basic necessities.
7. **Small Land Holdings**: Most farmers' land holdings were tiny. Small landholdings impede agricultural expansion since farming can only be done using labour-intensive techniques, making the use of equipment impossible. Furthermore, farmers use their harvest (which is clearly less owing to tiny holdings) for their personal consumption rather than selling it in the market.

Land reforms

Land reform relates largely to changes in land ownership. Several undeveloped and emerging nations have used land reform strategies to achieve a reasonable land allocation pattern and a profitable farming system. Land reforms were desperately needed in India, where agriculture still employs the vast majority of the people.

Abolition of intermediaries

The Indian government made many initiatives to eliminate intermediaries and make tillers the proprietors of the property. The goal of Land to the Tiller was that owning land would incentivize genuine tillers to improve and boost productivity. Tenants have little motivation to enhance the property because the landowner earns more from increased productivity. Ownership of land allows the tiller to profit from increasing productivity.

Land Ceiling

The term "Land Ceiling" refers to a set restriction on the amount of land that an individual may acquire.

- If a person's lands exceed the prescribed limit, the government will seize them and give them to landless cultivators and small farmers.

- The goal of the land ceiling was to minimize the concentration of land ownership in few hands.
- The land ceiling promoted equity in the agriculture sector. However, large landlords contested the land ceiling legislation. They postponed the implementation. They exploited the wait period to register the land in the name of close relatives, circumventing regulations.

Green revolution

- India's agriculture is heavily reliant on the monsoon, and if it failed, farmers would be in danger unless they had access to irrigation infrastructure, which few had. The Green Revolution ended this period of stagnation. The utilization of high yielding varieties (HYV) seeds, particularly for wheat and rice, has led to significant increases in food grain output.
- The usage of these seeds necessitated the application of fertilizer and insecticide in the appropriate proportions, as well as a consistent supply of water.
- Farmers needed adequate irrigation systems and financial means to purchase herbicides, insecticides, and fertilizers in order to reap the benefits of HYV seeds.
- As a result, the Green Revolution was first confined to wealthy farmers in prosperous areas such as Punjab, Andhra Pradesh, and Tamil Nadu.
- During the second phase of the green revolution (mid-1970s to mid-1980s), HYV technology extended to additional states and benefitted a broader range of crops.
- The expansion of the Green Revolution enabled India to be self-sufficient in crop production, and we were no longer dependent on other nations for importing our food requirements (especially rice and wheat).
- The extra food was now marketed and sold, increasing the country's economic production. The part of agricultural output that farmers sell in the market is referred to as marketed surplus.
- Farmers sold a large amount of the rice and wheat produced during the green revolution period (which was available as marketable surplus). As a result, food grain prices fell in comparison to other consumption products.

- As a result, food grain prices fell in comparison to other items of consumption. Low-income households, which spend a big portion of their income on food, benefited from the drop in relative prices.
- Furthermore, HYV crops were more susceptible to pest attacks, and small farmers that embraced this technique risked losing everything in the event of an assault.
- One such concern was that it would widen the gap between small and large farmers, as only large farms could afford the necessary inputs and so reap the majority of the advantages of the green revolution.

THE DEBATE ON SUBSIDIES:

- Subsidies were widely seen as vital to encourage farmers, particularly small farms, to embrace the new HYV technology.
- Subsidies were consequently necessary to persuade farmers to test the new technology. Some economists feel that once a technology is proven lucrative and widely used, subsidies should be phased out because their goal has been met.
- Furthermore, while subsidies are intended to aid farmers, a significant portion of fertilizer subsidies benefit the fertilizer business, and the subsidy mostly favors farmers in more rich regions.

In Favor of Subsidies:

- Some argue, however, that the government should continue to provide agricultural subsidies because farming in India remains a dangerous enterprise.
- Most farmers are quite poor, and they will be unable to purchase the necessary supplies without subsidies. Eliminating subsidies will exacerbate the disparity between affluent and poor farmers, undermining the purpose of equity.
- Thus, by the late 1960s, Indian agricultural production had grown enough to make the country self-sufficient in food grains.

Economist against the subsidy :

- Economists have discovered that as a country gets more rich, the share of GDP provided by agriculture, as well as the proportion of the population employed in the sector, decreases significantly.
- Agriculture's contribution to India's GDP decreased from 67.5% in 1950 to 64.9% in 1990, although its population remained stable.

INDUSTRIAL DEVELOPMENT

At the time of independence, the range of industries was quite limited. The cotton textile and jute industries were primarily established in India. There were just two well-managed iron and steel companies: one in Jamshedpur and another in Kolkata. As a result, there was a strong desire to broaden the industrial base through a range of enterprises.

Role of public industrial development

At the time of independence, the main issue for policymakers was determining the role of the government (public sector) and the private sector in industrial growth. There was a need for a leadership position for the public sector because of the following reasons:

1. **Capital Shortage in the Private Sector:** Private entrepreneurs lacked the funds to invest in industrial enterprises necessary for India's economic development. At the time of independence, Tata and Birla were the only well-known private entrepreneurs. As a result, the government had to undertake industrial investments through Public Sector Undertakings (PSUs).
2. **Lack of Incentives for the Private Sector:** Even if private industrialists had the necessary cash, the Indian market was insufficient to motivate them to pursue large-scale projects. The market's small size resulted in minimal demand for industrial items.
3. **Social Welfare Objective:** The government's goal of fairness and social welfare could only be realized by active governmental intervention in the industrialization process.

Industrial Policy Resolution 1956

1. Industrial Policy is a comprehensive package of policy measures which covers various issues connected with different industrial enterprises of the country
2. Industrial Policy is essential for devising various procedures, principles, rules and regulations for controlling industrial enterprise of the country.
3. 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, which also formed the basis of Second Five Year Plan. The 1956 Policy emphasised the need to expand the Public Sector.

Classification of industries

The 1956 Industrial Policy Resolution categorized industries into three categories: Schedule A, Schedule B, and Schedule C. Schedule

1. **Schedule A:** This first group included industries that would be wholly controlled by the state. This schedule includes 17 industries, such as guns and ammunition, atomic energy, heavy and core industries, aviation, oil, railways, shipping, and so on.
2. **Schedule B:** This schedule had 12 industries that will gradually become state-owned. The state would take the lead in establishing industries, with the private sector supplementing its efforts. This schedule comprises industries such as aluminium, mining, machine tools, fertilizers, and so on.
3. **Schedule C** included the remaining private-sector sectors. The state would enable and promote the growth of all of these sectors. The state governed these businesses through a licensing system, which was enforced by the businesses (Development and Regulation) Act of 1951.

Industrial licensing

An industrial license is formal approval from the government for an industrial unit to create goods. The Industries (Development and Regulation) Act of 1951 allows the government to grant licenses for new industries, expansion of existing ones, and product diversification.

- According to Industrial Licensing, new industries require government licenses. It was simpler to secure a license if the industrial unit was located in an economically depressed location.
- In addition, such units were granted specific privileges, such as tax breaks and cheaper power rates. The goal of this strategy was to increase regional equity.
- A license was required even if an existing industry wished to increase output or diversify production.
- The government granted a license to increase output only if it was persuaded that there was a greater demand for goods in the economy.

Small-Scale Industries (SSI)

In 1955, the Village and Small-scale industry Committee (Karve Committee) acknowledged the potential of small-scale industry to foster rural development. A "small-scale industry" is defined by the maximum investment authorized in a unit's assets. This ceiling has increased from five lakh rupees in 1950 to one crore rupees now.

1. **Employment Generation:** Because small-scale enterprises require more labor than large-scale industries, they create more jobs. After agriculture, small-scale enterprises employ the most people in India.
2. **Protection against Big corporations:** Small-scale enterprises cannot compete with large industrial corporations. They can only grow if they are safeguarded from major corporations. As a result, the government implemented a variety of policies to promote their growth. Smail-scale industries create greater employment.

   • Product Reservation: The government has reserved the manufacture of a variety of items for small-scale industries. The criterion for reserving the items was the ability of these units to manufacture the commodities.

• Various Concessions: Small-scale industries received concessions such as cheaper excise tax and lower interest rates on bank loans.

FOREIGN TRADE.

Foreign commerce in India include all imports and exports to and from India. India started the planned development era in the 1950s, and at the time, import substitution was a fundamental component of India's trade and industrial policy. In 1950, India's proportion in global commerce was 1.78%.

Trade Policy: Import Substitution.

India has replaced imports with home manufacturing to achieve self-sufficiency in key industries. In the first seven programs, commerce was defined by an inward-looking trading strategy. Technically, this method is known as 'Import Substitution'. Import substitution involves replacing imported goods with domestically produced goods.

Protection from Imports through Tariffs' and 'Quotas

1. Tariffs: Tariffs are tariffs imposed on imported products. The primary goal of placing large duties on imported goods was to make them more costly and discourage their usage.

2. Quota: Quotas are non-tariff obstacles placed on the quantity of imports and exports. It establishes a maximum restriction on commodities imports by a domestic producer.

The imposition of tariffs on imported items and the establishment of quotas all contributed to the reduction of import levels. As a result, indigenous enterprises could expand without fear of competition from the international market.

CRITICAL APPRAISAL OF INDUSTRIAL DEVELOPMENT (1950-1990)

1. India's industrial sector made significant progress throughout the first seven plans, contributing 11.8% of GDP in 1950-51 and 24.6% in 1990-91. This increase in the industry's percentage of GDP is a significant signal of growth. During the time, the industrial sector experienced a 6% annual growth rate, which is outstanding.

2. Indian manufacturing expanded beyond cotton textiles and jute. It also includes engineering products and a diverse variety of consumer items. By 1990, the industrial sector had become far more diverse, thanks in large part to the public sector.
3. The encouragement of small-scale industries created opportunity for those with less funds to start a business. New investment opportunities contributed to increase employment. It fostered growth via equity.
4. Protection from foreign competition (by import substitution) allowed for the growth of indigenous industries in the electronics and car sectors that would not have occurred otherwise.

   (1)**Inward Looking Trade Strategy:** Because our policies were inward-oriented, we were unable to build a robust export industry.

   (2) **Lack of Competition:** Due to import limitations, certain indigenous manufacturers made no real attempts to enhance the quality of their goods, forcing Indian customers to buy whatever they produced. The local industry failed to meet international product quality criteria.
5. The Licensing Policy allowed the government to monitor and manage industrial production. However, the government's heavy regulation caused two difficulties:

   (1**) Misuse:** It was abused by industrial companies. Some major industrialists would get a license not to create a new company, but to prevent competitors from launching new ones.

   (2) **Time Consuming:** Obtaining a license was a time-consuming and difficult process. Industrialists spend a lot of time attempting to secure a license.
6. The public sector contributed significantly by building a solid industrial foundation, improving infrastructure, and fostering growth in underserved regions.
   - However, the public sector continued to monopolize (although ineffectively) certain non-essential areas that might be handled better by the private sector. For example, telecommunications, the hospitality business, and commodities manufacture (such as Modern Bread).
   - As a result, valuable public money were channeled into sectors where the private sector might have readily participated.

- Many public-sector enterprises suffered significant losses but continued to operate due to the difficulties of terminating a government endeavor.
- Many researchers attacked the public sector's monopoly on such non-essential topics. They believe that the public sector's involvement should be confined to key sectors (such as national defense), while the private sector should be allowed opportunities in other non-essential areas.