

Indian Economy (1950-1990)

Freedom - 15th Aug. - Stagnant & Backward Economy

So what kind of eco^{ic} system?

↓
Arrangement by which Central Problems of an economy are solved.

What are Central Problems:-

What to produce

How to produce (for whom to produce)



TYPES

OF

ECONOMIC

SYSTEMS

Basis
Ownership
of FOP

Capitalist

Owned, controlled & operated by private sector

Socialist

by Govt Sector

Mixed

Both private & Govt.

Motive

What

to produce

Profit making

Only those goods which can be sold at a profit.

Welfare of public

Govt decides what to produce acc to needs of Society.

Both

Govt provides basic necessities for all, market

Sells for profit

How to

Produce

Using cheaper techniques. If cheap Labor is available - L-intensive technique is adopted else K-intensive.

Govt decides how to produce goods.

Both Govt & mkt decide.



Central Problems of an Economy

What to Produce
& in what qty

How to Produce



Allocation of
Resources

Choice of technique



Consumer goods
vs
Capital goods
(How much of
each good)

L - Intensive
K - Intensive
↓
More K
Less L
↓
More L
Less K

For Whom To Produce



Problem of Distribution

for Rich or poor



Personal Distn.

Distn. among
Land, L, K &

entrepreneur



Functional Distn.

For whom
to produce

Capitalists produce
not on basis of
needs but on the
basis of income/
purchasing power.

Socialism: Govt
produces on
basis of needs
& not on basis
of affordability.

India adopted Mixed Econ Model. Why?

- Complete dilution of prt property not possible.
Not Socialism
- Quality of life of majority needs to be improved so no capitalism

∴ India - a mixed economy
Strong public sector + prt sector
+ Democracy

ECONOMIC PLANNING

Solving central problems by conscious decision of a determinate authority, on the basis of comprehensive survey of economy.

Leading role - Public sector by IPR 1948
Directive Principles of Indian Constitution

Planning Commission - 1950, PM as chairman
Five year plans - adopted.

(Perspective Plan - 20 years)

Assess human & physical resources & use them effectively.

★ PLAN :- Document showing detailed scheme, program & strategy to fulfill an objective.

What objectives/Goals? (4)

Growth

- ↑ in GDP
- ↑ in share of service sector in GDP.

Modernisation

- new tech.
- Δ in social outlook

Self Reliance

- No dependence on foreign countries
- No foreign interference.

Equity

- Benefits of Growth to all rich & poor.

AGRICULTURE

Intermediaries
(Zamindars)

low productivity
(food M from USA)

largest workforce
(70-75%)

- low productivity
- Dependence on rainfall
- Backward technology
- Disguised unempl.
- Subsistence farming
- Conflicts between ~~land~~ landlords & tenants.

2 Major Policies

Land Reforms
(land to the tiller)

Green Revolution
(Modern tech.)

Land Reforms (to achieve equity in agr.)

Abolition of Intermediaries

- Make tenants owners of land
- incentive to increase productivity
- 200 lakh tenants - direct contact with Govt.

Failures

- tenants evicted
- zamindars claimed to be self-cultivator
- took benefits of loopholes (transferring land ownership in names of ^{close} ~~fake~~ relatives).

Land ceiling

- fix max. land size a person can have
- Reduce land concentration in few hands.

Failures

- challenged by landlords in court to delay implementation
- In the meantime transferred land in names of close relative.

Where successful? Kerala & West Bengal.
Why? Committed Govt.

GREEN REVOLUTION

Increase in prodⁿ → due to HYV seeds, irrigation, fertilizers, pesticides etc (also credit, marketing facilities)

Father of GR: Norman Borlaug.

Phase-1

(Mid 60's - 70's) Punjab, Andhra Pradesh, Tamil Nadu (wheat)

Phase-2

(Mid 70's - mid 80's) (other states & other crops)

Requirements of HYV seeds (miracle seeds)

- Adequate drainage & water supply (Irrigation)
- Chemical fertilizers (4-10 times more)
(so need financial sources)

Benefits of GR:-

- i) Increased marketable Surplus
- ii) Buffer Stock
- iii) Benefits to low income groups

Risks of GR:-

- Pest Attack : More prone to pest attack, research institutes by Govt. & disseminate info.
- Risk of Income inequalities : gap b/w rich & poor. Govt. provided cheap credit & fertilizer subsidies

Overall Impact

- Land Reform & GR - enhanced agr^l prodⁿ & productivity
- Self Sufficiency in FG.
- share of agr in GDP ↓ ed but not the workforce (65%)
- Ppl. not absorbed in other sectors --.

INDUSTRIAL SECTOR (1950-70)

Ltd. Ind. - Cotton, jute, TISCO ← Jamshedpur
another in Kolkata

Need to expand industrial base.

Leading Role - Public Sector
supplementary role - pvt. sector

Shortage of k with
pvt. sector
ind. required
more k

Ltd. size of
mkt. so
low dd for
ind. products

Social
welfare obje-
-ctive
∴ Govt.

IPR (1948) followed by IPR (1956)

means policy measures related to ind.

Classification of Ind. acc to IPR (1956)

Schedule A

- exclusively owned by state
- 17 ind.
- Eg. arms & ammu-
-nitions, aircraft,
Oil, Railways,
shipping, atomic
energy etc.

Schedule B

- Govt set up ind.
Pvt. sector
supports
- 12 Ind.
- aluminium,
machine tools,
fertilizers
etc.

Schedule C

- Pvt. sector
handled
- Pvt. sector
controlled
thru license



* LICENSING

- To set up new ind
- To expand
- To diversify

→ Easy to get license for backward areas to promote regional balance

Drawback: Used for lobbying → to prevent new producers from entering the mkt.
→ Cumbersome procedure to get license.

Promotion of Small Scale Industries

SSI :- Inv limit ₹5 lakh in 1950.
(1 crore - now)

Kareve Committee (1955) - imp.

Why SSIs?

- i) For rural dev.
- ii) L-intensive so empl. generating

* Protected against big producers

* Items reserved - 836

Eg. Tissues, napkins, small toys, papers, pens, matchbox.

* SSIs given concessions (lower excise duty, loans at low interests)

Foreign Trade

India's share in world trade in 1950 - 1.78%

India's Trade Policy

IMPORT SUBSTITUTION

Substitute imports with domestically produced goods (inward looking policy)

↓
Protect domestic ind. from foreign trade.

How did they protect domestic ind?

Tariffs

Tax on imports to make them expensive & hence ↓ imports

Quotas

fix the max. amount of a comm. to be imported.

Why M-substitution?

- To save foreign exchange
- To be self-reliant
- Couldn't compete with foreign made goods

Result? Positive

- i) ↑ in share in GDP from 11.8% in 1950 to 24.6% in 1990.
- ii) Annual growth of ind. sector - 6%.
- iii) Diversified ind. sector - cotton jute textiles engineering goods, consumer goods.
- iv) SSI's generated empl.

Negative Results

- failed to develop strong X-sector
- Dom. producers incompetent for international standards.
- Public sector continued even where pvt. sector could operate well.
- PSUs in losses, still continued for welfare reasons.
- Wasteful use of Govt resources in areas not needed - should focus on ltd. strategic areas.