

# INDIAN ECONOMY

1950-1990



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# CENTRAL PROBLEM OF AN ECONOMY

Three major central problem of an economy are:

## WHAT

- It involves deciding final combination of goods and services to be produced , it involves the selection of goods and services and the quantity of each , that the economy should produce.

## HOW

- It involves deciding the technique of production ,whether selected goods to be produced with more labor and less capital ( known as labor intensive Technique ) or with more capital and less labor (known as capital intensive Technique).

## WHOM

- It involves deciding the distribution of output among people, it involves the selection of people it involves the selection of the category of people will ultimately consume the goods.

# ***TYPES OF ECONOMIC SYSTEMS***



**Capitalist Economy**

**Socialist Economy**

**Mixed Economy**



# INDIAN ECONOMIC SYSTEM

- 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 favor of socialist economy . However , in a democratic country like india, complete dilution of private ownership was not possible (as was possible in case of the former soviet union )
- Capitalist 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 (with 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.

# Economic Planning

- After adopting the 'Mixed Economic System', the next Important step for the Government was to revive the poor, backward and stagnant economy, Inherited from the British rule.
- Economic planning can be defined as making major economic 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 Directive Principles of the Indian Constitution assigned a leading role to the public sector.
- To make economic planning effective, the Government of India set up the Planning Commission in 1950, under the chairmanship of the then Prime Minister Pandit Jawaharlal Nehru.
- The Planning Commission fixed the planning period at five years, which began the era of 'Five-Year Plans'.

Note: It must be noted that 'Planning Commission' is no more in existence. On 1st January, 2015, a Cabinet Resolution was passed to replace the Planning Commission the the newly formed NITI Aayog (National Institution for Transforming India). Prime Minister is the ex-official chairman of NITI Aayog.

**'P.C. Mahalanobis' is known as the architect of Indian Economic Planning:**

## **About Prasanta Chandra Mahalanobis**

- Mahalanobis was born on 29th June 1893 in Calcutta (now Kolkata).
- He was educated at the Presidency College in Calcutta and at Cambridge University in England.
- In 1946, he was made a fellow (member) of Britain's Royal Society, one of the most prestigious organizations of scientists.
- Mahalanobis established the Indian statistical institute (ISI) In Calcutta and started a journal, Sankhya, which still serves as a respected forum for statisticians to discuss their ideas.
- He is best remembered for the Mahalanobis distance, a statistical measure.

### **Contribution of Mahalanobis in Indian Planning**

In India, planning in the real sense, with the second five year plan. The second plan laid down the basic ideas regarding goals of Indian planning, which was based on the ideas of Mahalanobis.

# Explore More About "Plan"

## Meaning of Plan

Plan is a document showing a detailed scheme, program and strategy, worked out in advance for fulfilling an objective.

## Reason for Making Plans

Planning is done to achieve some predetermined goals within a specified time period. It involves detailed analysis of the problems at hand and G Waking conscious decisions to solve.

Plan is a document showing a detailed scheme, program and strategy, worked out in advance for fulfilling an objective.

## Content in Plans

Our plan documents not only specify the objectives to be attained in the five years of a plan, but also, what is to be achieved over a period of twenty years. This long-term plan is called 'Perspective Plan'. The five-year plans are supposed to provide the basis for the Perspective Plan.



## Goals of Five-Year Plans

The first five year plan was launched by our first Prime Minister, Pandit Jawaharlal Nehru in the parliament. It was launched for a period starting from 1st April, 1951 and ending on 31st March, 1956. 12th Five Year Plan of the Government of India (2012-17) was India's last Five Year Plan. In between these years, some annual plans were also introduced.

These basic goals are:

**Growth**

Modernisation

Self-reliance

Equity



# MODERNISATION

Indian planners have always recognized the need for modernization of society to raise the standard of living of people , Modernization including :

**Adoption of New Technology:** Modernization aims to increase the production of goods and services through the use of new technology. For example, a farmer can increase the output on the farm by using new seed varieties instead of using the old ones.

**Change in social outlook:** Modernization also requires a change in social outlook, such as gender empowerment or providing equal rights to women. A society will be more civilized and prosperous if it makes use of the talents of women in the work place.

# Self-reliance

The third major objective is to make the economy self-reliant.

- Self-reliance under Indian conditions means overcoming the need of external assistance. In other words, it means to have development through domestic resources.
- To promote economic growth and modernization , the five-year plans stressed on the use of our own resources, in order to reduce our dependence on foreign countries.

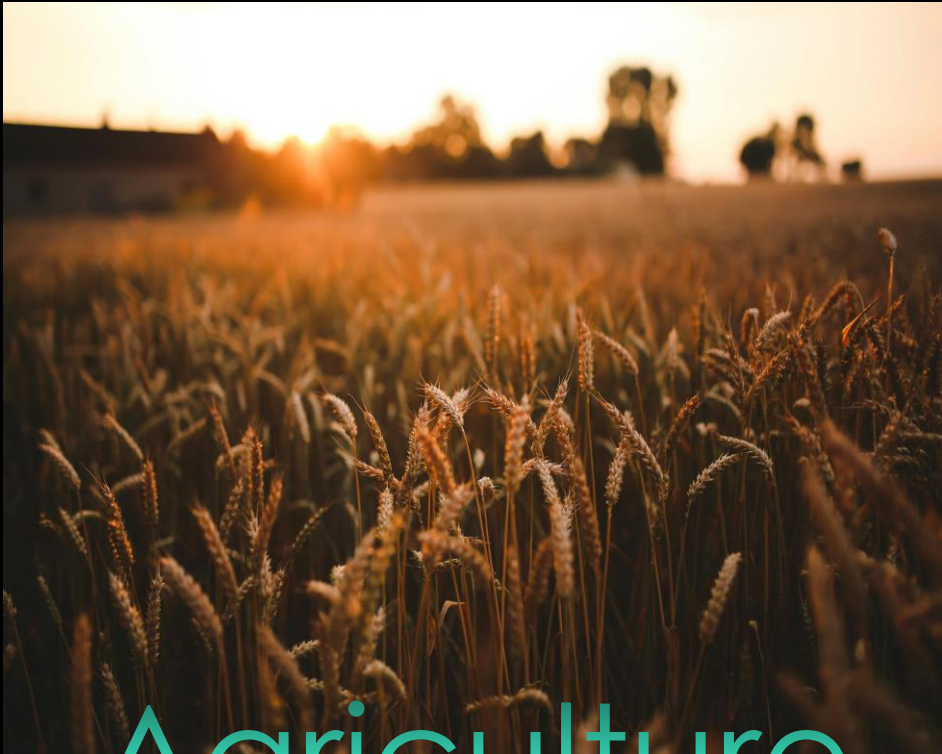
The policy of self-reliance was considered a necessity because of two reasons:

- To reduce Foreign Dependence: As India was recently freed from foreign control, it is necessary to reduce our dependence on foreign countries, especially for food. So, stress should be give to attain self-reliance.
- To avoid Foreign Interference: It was feared that dependence on Imported food supplies, foreign technology and foreign capital may increase foreign interference in the policies of our country.

# 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 the benefits of economic prosperity are availed by all sections (rich as well as poor) of the economy.
- 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

- The agriculture sector accounted for the largest share Of the workforce with approximately 70-75 %. So, agricultural development was focused right form the first five-year plan.
- At the time of independence ,the land tenure system was characterized by intermediaries (like zamidars )who merely collected rent (Lagaan) form the actual tillers of the soil.
- The low productivity of the agricultural sector forced India to import food from the united states of America.



### **LOW PRODUCTIVITY**

The Indian agriculture sector was known for its low productivity. Lack of knowledge was responsible for stagnation in this sector

### **DISGUISED UNEMPLOYMENT**

It refers to a state in which more people are engaged in work than are really needed.

### **HIGH DEPENDENCY ON RAINFALL**

Due to poor agriculture techniques, farmer depended largely on rainfall. There was minimum growth of this sector in the year that receives the least rainfall

### **SUBSISTENCE FARMING**

It is the practice of growing crops only for one's own use without any surplus for trade

### **OUTDATED TECHNOLOGY**

There were many obsolete technologies and harvesting machines. Harvesting was generally done manually and was very tedious

### **CONFLICT BETWEEN TENANT AND LANDLORDS**

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

### **SMALL LAND HOLDINGS**

Most of the land holdings of the farmers were small. Small land holdings is a hindrance on the process of agriculture growth as farming can be carried out by only labor intensive techniques, use of machines become difficult.

## **POLICIES FOR GROWTH OF AGRICULTURE**

The measures undertaken to promote the growth in the agriculture sector can be broadly categorized as 'Land Reforms' and 'Green Revolution'.

Land reforms primarily refer to change in the ownership of landholdings.

- 1) Land reform measures have been introduced by various underdeveloped and developing countries, for attaining a rational land distribution pattern and viable farming structure.
- 2) There was a great need for land reforms in a country like India, where majority of its populations still depends on agriculture.
- 3) land reforms were needed to achieve the objective of equity in agriculture.

## ABOLITION OF INTERMEDIARIES

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

- ❑ Aim behind 'Land to the Tiller': the idea behind this step was that ownership of land would give Incentives to the actual tillers to make improvements and to Increase output (provided sufficient capital was made available to them. Tenants do not have any Incentives to make Improvements on land since it Is the owner of the land who benefits more from higher outputs. Ownership of land will enable the tillers to make profit from the Increased output.
- ❑ The abolition of Intermediaries brought 200 lakh tenants Into direct contact with me the government.
- ❑ The ownership rights granted to tenants gave them the Incentives to Increase output and this contributed to growth in agriculture.

However, this goals of equity was not fully served by abolition of intermediaries because of 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 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 the government and will be allotted 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 name of close relatives, thereby escaping from the legislation.

## **CONCLUSION:**

Land reforms were successful in Kerala and West Bengal because government of these states were committed to the policy of land forms.



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 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) or miracle seeds especially for wheat and rice.

Dr. Norman E. Borlaug, an American agricultural scientist, is considered to be the 'Father of the Green Revolution'. He was awarded the Nobel peace prize In 1970 for breeding higher - yielding varieties. In India, It was mainly found by M.S Swaminathan.

This new strategy is also popularly known as modern agriculture of Green Revolution.



**GREEN REVOLUTION**

## HYV SEEDS (High Yield Variety seeds): MAIN REASON FOR AGRICULTURAL REVOLUTION

Agricultural revolution occurred primarily due to the miracle of new wonder seeds(HYV 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 fertilizers (4 to 10 times more fertilizers) to get the largest possible production.
- So, to derive benefit from HYV seeds, farmers needs to have:
  - reliable Irrigation facilities; and
  - Financial resources (to purchase fertilizers and pesticides).



### INDIAN ECONOMY EXPERIENCED THE SUCCESS OF GREEN REVOLUTION IN 2 PHASE:

1. In the first phase (mid 60s to mid 70s), the use of HYV seeds was restricted to more affluent states (like Punjab, Andhra Pradesh, Tamil Nadu, etc.) further, the use of HYV seeds primarily benefited the wheat growing regions only.
2. the second phase (mid 70s to mid 80s), the HVV technology spread to a larger numbers created and benefited more variety of crops.

## **IMPORTANT EFFECTS OF GREEN REVOLUTION** **(OR MERITS OF GREEN REVOLUTION)**

### **i. ATTAINING MARKETING SURPLUS:**

- a) Marketable or marketed surplus refers to that part of agricultural produce which is sold in the market by the farmers after meeting their own consumption requirement.
- b) Growth in agricultural output makes a difference to the economy only when large proportion of this increase is sold in the market.
- c) Fortunately, a good proportion of rice and wheat produced during the green revolution period was sold by the farmers in the market.

### **ii. 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 of food shortage.

### **iii. BENEFITS TO LOW INCOME LEVEL GROUPS:**

Celling on Land Holdings Benefit to low income Level 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 of their income on food, benefited from this decline in relative prices.



## **RISKS INVOLVED UNDER GREEN REVOLUTION** **(OR DEMERITS OF GREEN REVOLUTION)**

### **1. RISK OF PEST ATTACK:**

- The HYV crops were more prone to **attacks 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.

### **2. 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. DECEP The government provided loans at a low interest rate to small farmers so they could also have access to the needed inputs. Since the 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 benefited the small as well as rich farmers.

### **3. DEBATE OVER SUBSIDIES TO AGRICULTURE:**

Subsidy, in context of agriculture means that the farmers get inputs at prices lower than the market prices. In words, subsidy is the financial assistance provided by the government to producers to fulfil its social welfare objectives.



# ECONOMISTS IN FAVOUR OF SUBSIDIES



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

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

Eliminating subsidies will increase the **Income inequality between rich and poor farmers** and will violate the ultimate goal of equity.

## ECONOMISTS AGAINST THE SUBSIDIES



### **FISCAL BURDEN:**

Economists argue that subsidies are a huge burden on government's finances

### **BENEFIT TO FERTILIZERS INDUSTRIES AND PROSPEROUS FARMERS:**

Subsidies do not benefit the poor & small farmers (target groups) as benefits of substantial amount of subsidy go to fertilizers industries & prosperous farmers.



# SOME IMPORTANT OBSERVATIONS

## 1. PRICES AS SIGNALS:

Prices act as signals about the availability of goods. When a good becomes scarce, its price tends to rise & those who use this good are required to make efficient decisions about its use based on the price.



For example, with the outbreak of coronavirus, sanitizers, masks, etc. became very costly due to their short supply or scarcity in relation to demand. Similarly, when the price of petrol increases, it reflects greater scarcity of petrol and the price rise is a signal that less petrol is available.



## 2. Subsidies may also be beneficial for the economy and society

- By providing agricultural subsidies (for seeds, fertilizers, etc.), the government aims to make sure that everyone get the food they need.
- Through subsidies, the government wants to ensure steady Income for farmers, even during price changes or bad harvest.
- Agricultural subsidies facilitates the growth of local economy by helping farmers and people living in the rural area.

## 3. Subsidies may led to wasteful use of resources:

- When electricity is provided at a subsidised rate or free, it will be used wastefully without any concern for its scarcity.
- When water is supplied free to the farmers than they may cultivate water Intensive crops, even though the water resources in that region may be scare. As a result such cropping pattern will further deplete the already scarce resources.
- Fertilizers and pesticides subsidies result in over use of resources which can be harmful to the environment.
- At times, agricultural subsidies Increase the production of some foods which have subsidies. Farmer might grow too much of those and it may cause problems with storing them and selling them for a fair price.