

Indian Economy 1950 – 1990

Economic Planning

It is a process under which a central authority defines a set of targets to be achieved within a specified period of time.

Capitalism It is an economic system in which major economic decisions like

- What goods and services are to be produced.
- How goods and services are to be distributed are left to the free play of the market forces or the forces of supply and demand.

Socialism

It is an economic system in which major economic decisions are taken by the government, keeping in view the collective interest of the society as a whole.

Mixed Economy

It is an economic system in which major economic decisions are taken by the Central Government authority as well as are left to the free play of the market forces.

Goals of Five Year Plans

A plan should have some clearly specified goals. The goals of five year plans are

- Growth Economic growth implies a consistent increase in GDP or a consistent increase in the level of output or a consistent increase in the flow of goods and services in the economy over a long period of time.
- Modernisation To increase the production of goods and services to producers with the adoption of new technology.
- Self-reliance It means avoiding imports of those goods which could be produced in India itself. This policy was considered a necessity in order to reduce our dependence on Foreign countries, especially for food.
- Equity It implies equitable distribution of income so that the ^benefits of growth are shared by all sections of the society.

Agriculture

It refers to all those activities which are related to the cultivation of land for the production of crops; food crops and non-food crops.

(i) Importance of Agriculture in the Indian Economy

- Contribution to GDP
- Supply of wage goods
- Employment

- Industrial raw material
- Contribution to international trade
- Contribution to domestic trade
- Wealth of the nation

(ii) Problems of Indian Agriculture

- Lack of permanent means of irrigation
- Deficiency of finance
- Conventional outlook
- Small and scattered holding
- Lack of organised marketing system

Reforms in Indian Agriculture

(i) Technical Reforms

- Use of HYV seeds
- Use of chemical fertilisers
- Scientific farm management practices
- Mechanised means of cultivation

(ii) Land Reforms

- Abolition of intermediaries
- Regulation of rent
- Consolidation of holding
- Ceiling on land holding
- Co-operative farming

(iii) General Reforms

- Expansion of irrigation facilities
- Provision of credit
- Regulated market
- Price support policy

Marketable Surplus

It refers to surplus of farmer's output over and above his own farm consumption. Thus, Marketable surplus of wheat = Output of wheat – On farm consumption of wheat

Green Revolution

It started in India in year 1967-68. In the year, 1967-68 itself, foodgrain production increased by nearly 25%. So, much increase in foodgrain production in a country which earlier used to import foodgrains.

Industry

Industry provides employment in agriculture; it promotes modernisation and overall prosperity.

Importance of industry are as follows

- Structural transformation
- Source of employment
- Source of mechanised means of farming
- Imparts dynamism to growth process
- Growth of civilisation
- Infrastructural growth

Industrial Policy Resolution 1956 (IPR-1956)

- Three-fold classification of industries
- Industrial licensing
- Industrial soaps

Private Sector

It was assigned only a secondary role in the process of industrialisation. Industries in the private sector could be established only through a license from the government.

Small Scale Industries (SSI)

These were accorded a high priority with a view to promoting the goals of 'employment and equity'.

Import Substitution

Inward looking trade strategy is called import substitution.

On 15 th August, 1947, India attained its freedom. After independence, Nehru and many other leaders decided the type of economic system that will prove beneficial for India. In order to achieve the objectives of 'growth with equity', mixed economy was introduced as the economic system of India.

Topic 1 Economic System and Planning

Economic System

Economic system is defined as an arrangement by which the central problems of an economy are solved.

The three basic central problems of an economic system are

- Choice of Production What goods and services should be produced in the country?
- Choice of Technology How should the goods and services be produced? Should producers use more human labour or more capital for producing things,

- Distribution of Goods and Services How should goods and services be distributed among people?
On the basis of government intervention, economic system can be classified as

Socialist Economy

It is an economic system in which all economic decisions are taken by the government. In this system, the government decides what goods are to be produced in accordance with the needs of society, how goods are to be produced and how they should be distributed.

Socialist economy promotes equitable distribution of income. However, it also suffers from the drawbacks of a bureaucratic set up in the form of red-tapism and corruption.

In Cuba and China, most of the economic activities are governed by the socialistic principles.

Capitalist Economy

Capitalist economies depend 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 to the producers.

For example, cars will be produced if they are in demand and also if they can earn profits for the producer.

In this economy, the goods and services produced are distributed among people not on the basis of what people need but on the basis of purchasing power.

- Capitalist economy generally manifests unequal distribution of income, but it also generates fastest growth in output and national income
- Capitalist economy is also called laissez faire or free market economy, it exists in North America, Japan, Australia, Western Europe, etc.

Mixed Economy

It is an economic system in which public sector and private sector exist side by side. In this economy, the market will provide whatever goods and services it can produce well and the government will provide essential goods and services which the market fails to provide.

Merits of Mixed Economy

- Mixed economy gives proper scope to private individuals to co-exist and contribute towards economic development.
- In this, planned economic development ensures stability . and balanced development.
- In this, competition between the private sector and public sector industries is there. It leads to enhanced productivity.

Demerits of Mixed Economy

- Mixed economy cannot effectively control the private sector industries which are outside the government purview.
- It is characterised by red-tapism and high degree of corruption.
- In it, there is concentration of economic power in the hands of private sector, politicians and bureaucrats.

Economic Planning

Economic planning is a process in which a central authority of a country defines a set of goals to be achieved within a specified period, sets out a plan to achieve those goals, keeping in view the country's resources.

Planning commission defines economic planning as, 'Economic planning means utilisation of country's resources in different development activities in accordance with national priorities'. Now, let us understand what a 'plan' is?

- A plan spells out how the resources of nation should be efficiently utilised.
- It should have some general goals which are achieved through specific objectives within a specified period of time.

To formulate plans, Planning Commission was set up in 1950 under the chairmanship of Jawaharlal Nehru, the first Prime Minister of independent India.

Its aim was to promote rapid rise in standard of living of the people, increase production and offer employment opportunities in India. To facilitate economic planning Five Year Plans were formulated. The first Five Year Plan was introduced in April 1951.

All the Five Year Plans are formulated keeping the below objectives in mind

Growth
It refers to increase in the country's capacity to produce the output of goods and services within the country. It implies either a larger stock of productive capital or a large size of supporting services like transport and banking.

Increase in GDP is a good indicator of economic growth. Gross Domestic Product (GDP) is the market value of all final goods and services produced in the different sectors of an economy, viz the primary sector, the secondary sector and the tertiary sector during a year within the domestic territory of a country.

Modernisation

Adoption of new technology is called modernisation. It is done with an aim to increase the production of goods and services. For example, a farmer can increase the output on the farm by using new seed varieties instead of using old ones.

Modernisation refers to not only change in production methods, but also change in the social outlook of a society by granting equal status to women and making use of their talent in the productive process.

Self-Reliance

A nation can promote economic growth and modernisation by using its own resources or by using resources imported from other nations. The first seven Five Year Plans gave importance to self-reliance by avoiding imports. This policy was considered a necessity in order to reduce our dependence on foreign countries especially for food.

Equity

It refers to reduction in disparity of income or wealth, by uplifting weaker sections of the society. It also refers to distribution of economic power equally or in such way that every Indian should be able to meet his or her basic needs such as food, a decent house, education, healthcare, etc.

Mahalanobis

The Architect of Indian Planning

Prasanta Chandra Mahalanobis was born in 1893 in Calcutta. He was educated at the Presidency College in Calcutta and at Cambridge University in England. His contributions to the subject of statistics brought him international fame. In 1946, he was made a Fellow (member) of Britain's Royal Society, one of the most prestigious organisations of scientists.

Mahalanobis established the Indian Statistical Institute (ISI) in Calcutta and started a journal, Sankhya. Mahalanobis had contributed a lot in the formulation of our Five Year Plans. The Second Plan, became the landmark of his contribution.

During the Second Plan period, Mahalanobis invited many distinguished economists from India and abroad to advise him on India's economic development. Some of these economists became Nobel Prize winners later, which shows that he could identify individuals with talent.

Many economists today reject the approach to planning formulated by Mahalanobis but he will always be remembered for playing a vital role in putting India on the road to economic progress and statisticians continue to profit from his contribution to statistical theory.