Indian Economy Between 1950 to 90

PART-1

Introduction

India got its freedom from British Rule on 15th August 1947. After independence, India adopted Mixed Economic System (having characteristics of both capitalism and socialism). However, taking inspiration from USSR, it decided to use economic planning as a development strategy. Planning Commission was established in March 1950 with Prime Minister being the ex-officio chairman and the first plan commenced in 1951. India replaced Planning Commission with NITI (National Institute for Transforming India) Aayog in 2015 and stopped five year plans in 2017 after completing 12 plans.

Common goals/objectives of Plans

1. Growth: Increase in GDP and per capita income with hope that benefit of higher growth would go to the all people.
2. Modernization: New Technology in production of goods & services and change in Social Outlook (women empowerment)
3. Self-Reliance: It focused on use of own resources to be self-sufficient in production of goods & services to avoid foreign dependence and interference.
4. Equity: Providing opportunities to poorer section of society to raise their living standard and social status.

Agriculture Sector

At the time of Independence, Agriculture Sector was suffering low productivity. Most farmers were doing subsistence farming with no or little marketable surplus. To provide tenants rights to the cultivated land and to improve their condition, government introduced Land Reforms (Abolition of Zamindars and Land Ceiling) and Green Revolution (HYV seeds, chemical fertilizer & pesticides, mechanized farming).

However, Land reforms were not much successful. Only Bengal and Kerala were successful to some extent. Zamindars evicted tenants and claimed themselves as cultivators. Many landlords registered lands in the names of their relatives to escape land ceiling acts.

Green Revolution (1966) increased productivity especially of Rice and Wheat. However, only some states like Punjab, Haryana, Western UP, Tamil Nadu etc. could get more benefit. Moreover, Green Revolution involved risk of pest attacks and increased level of income inequalities. However, government initiatives like subsidies, loan on low interest etc. have decreased these risks to some extent.

Debate on Subsidies

Favour: Subsidies are a necessary as most farmers are small and marginal farmers and they lack adequate purchasing power of various machines and raw material on high market price.

Against: Most of the amount of subsidies goes to fertilizer industry and big farmers. Moreover, subsidies encourage wasteful use of resources.

Industrial Sector

After independence, Public Sector was given leading role in industrial development due to shortage of private capital, lack of incentive for private sector and objective of social welfare for the state. As per Industrial Policy Resolution 1956 (base for 2nd Plan), industries were divided in three types- Schedule A (only for public sector), Schedule B (for both public and private sector) and Schedule C (for private sector only).

Policy of industrial licensing was introduced, primarily to control private sector and to promote regional equality by providing license easily if industries were to be set up in backward regions. Moreover, to protect small producers and employment generation, some products were exclusively reserved for small scale industries.

Foreign Trade

Policy of Import Substitution (substitution of imports with domestic production) was adopted to achieve self-reliance and to save foreign exchange. Moreover, instruments of tariffs and quotas were also used to protect domestic product.

Conclusion

Though, India attained self-sufficiency in food production, it remained an agriculture economy as 65% population was still engaged in agriculture 1990. Industrial and service sectors could not absorb the extra workforce engaged in agriculture.

Industrial base became diversified and also attained high growth rate of 6%. It provided new investment and employment opportunities, especially in SSI. However, policy of import substitution and reservation of production badly affected the quality of the goods produced. Growth of private sector was hindered by license policy and reservation of industries for public sector.

India GDP growth was merely around 4%, often termed as Hindu Growth Rate (Coined by Raj Krishna). Share of Industrial Sector in GDP increased from 11.8% to 24.6%.

India failed to promote export oriented industries, resulting in foreign exchange crisis in 1990. The crisis forced India to adopt a more comprehensive Economic Policy in 1991 which focused on Liberalization, Privatization and Globalization.

PART-2

Some Important Concepts

Capitalism:

Capitalism is an economy system in which private sector owns the means of production and solve the central problems (what to, how to and for whom to produce) of an economy.

Socialism:

Socialism is an economy system in which public sector (state/government) owns the means of production and solve the central problems of an economy.

Economic Planning:

Economic planning is a process in which specified objectives of economic development are desired to be achieved in a given period of time.

Perspective Plan:

A plan for longer period of time i.e for 15 or 20 years.

Land Ceiling:

It means fixing limit on ownership of land. In Indian context, land beyond land ceiling would be taken over by the government and distributed among poor and landless farmers.

Marketed/Marketable Surplus:

The part of produce which is sold in the market after meeting own requirement of the farmers.

Buffer Stock:

Stock of goods, especially food-grains maintained by the government for unforeseen situation and public distribution system.

Subsidy:

It is the money that the government pays an organization/ producer to keep the cost of goods & service low so that consumers can get these goods and services at lower prices than the normal market price.

Industrial License:

It is a written document from the government to an industrial unit to manufacture goods.

Tariff:

In context of International Trade, Tariff is a tax on imported and exported goods. Other words for tariff are duties and customs. Import duty and export duty are example of tariff.

Quota:

In context of International Trade, we can define quota as fixing specific amount for importing and exporting goods and services.

PART-3

Frequently Asked Question (FAQs)

Q.1 What were the common goals of five years plans in India?

Q.2 Which Institution replaced Planning Commission?

Q.3 Who is chairman of NITI Aayog?

Q.4 Who were the first chairmen of Planning Commission and NITI Aayog?

Ans: Jawahar Lal Nehru was first Chairman of Planning Commission and Narender Modi was first Chairman of NITI Aayog.

Q.5 Which states were more successful in implementing land reforms?

Q.6 Why land reforms were not successful in India after Independence?

Q.7 What are the views in favour and against of subsidies in India?

Q.8 Why public sector was given leading role in development of Industrial sector in India after Independence?

Q.9 Which Industrial Policy/Resolution advocated leading role to public sector and it also became basis for 2nd five-year plan?

Ans: Industrial Policy Resolution 1956

Q.10 What is the policy of import substitution?

Q.11 What were two tools used by the Indian Government to protect domestic producers during 1950-90?

Ans: Tariff and Quota

Q.12 Which sector of economy achieved highest growth rate during 1950-90?

Ans: Industrial Sector (Secondary Sector)

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