Indian Economy

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About the Tutorial

Indian Economy is a subject that includes a wide range of topics starting from the economic condition of British India, Five-year Planning after independence, economic policy, globalization policy, national income, poverty, food security, employment, infrastructure, rural development, budget, to Microeconomics and Macroeconomics.

Indian Economy is an essential part of Social Science that makes us understand the economic functioning and conditions of our country in the context of past, present, and future.

This tutorial is divided into different chapters and explains the concept of Indian Economy and sustainable growth.

Audience

This tutorial is designed exclusively for the students preparing for the different competitive exams including **civil services, banking**, **railway**, and **eligibility test**.

Furthermore, the school students (especially class 11^{th} and 12^{th} standard) can also take advantage of this tutorial for the fast revision of their Economics course (especially during the annual exam time).

Prerequisites

This tutorial is entirely based on **NCERT Economics** (class 9^{th} to 12^{th}) Books; all the important points, concepts, and definition are filtered; therefore, prior knowledge of basic Economics or else having past experience of reading NCERT Economics books is essential to understand the topics.

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1. Introduction

Economy before British Rule

To understand the present level of the Indian economy, it is important to understand the economic system of India during the British rule and post-independence economic development policies.

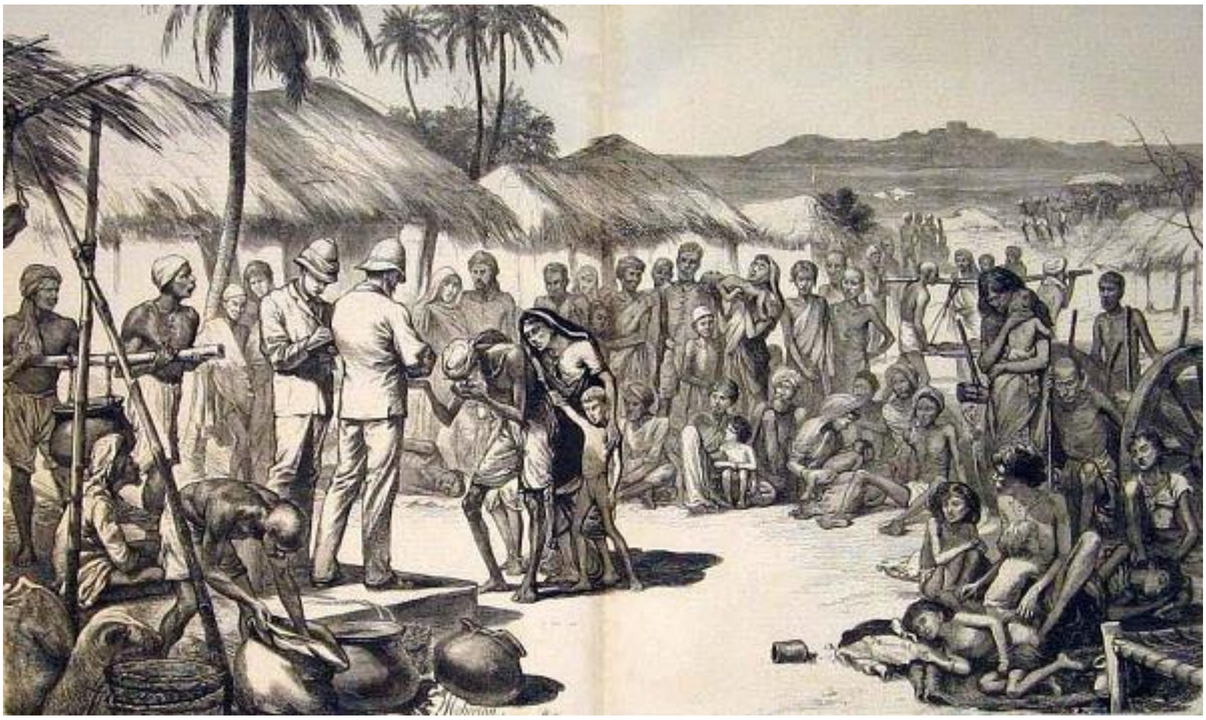
- Before the advent of British rule, India had an independent economy. It was largely primary sector economy and the major occupations were agriculture, handicrafts, and many other primary sector works.

- The economy was full of resources and a prosperous one. Therefore, high quality agricultural products and handicrafts made by the Indians were traded across the world.

Economy during British Rule

- During the British rule, India's economy became a net raw material supplier and a net importer of finished products.

- No British economist attempted to measure the per capita income and national income of India.



- Some of the Indian economists Dadabhai Naoroji, V.K.R.V. Rao, R.C. Desai and British Findlay Shirras and William Digby attempted to measure India's national income. Among all, V.K.R.V. Rao was the most successful.
- Before independence, India's economy was solely dependent upon agriculture.
- 85 percent of the Indian population were rural and their main source of subsistence was agriculture.
- During the British colonial period, agriculture (in spite of being the main occupation) was suffering from many problems and hence the effective growth was zero percent.
- Land settlement system was totally in favour of the British.
- Agricultural system was stagnant; however, later there was a gradual growth, but that was not because of improvement and development of the agricultural system, but because of the expansion of agricultural land.

Zamindari System

- Many parts of India (especially Bengal region of east India, today's West Bengal and Bangladesh) were practising *Zamindari* system (Land-lordship).
- The main work of the *Zamindars* was to collect the land tax/rent. They almost did nothing either to improve the agriculture system or the conditions of the farmers.
- *Zamindars'* inhumane attitude affected farmers' lives very badly. Most of the regions of the country were facing famine and many other social issues and problems.
- Some of the regions, during the Zamindari system, evidenced growth that was only because of the commercialisation of agriculture. In these regions, the farmers had been forced to produce cash crops instead of staple food crops.

Major Problems

- The major problems were:
    - Drought,
    - Flood,
    - Poor irrigation system,
    - Desalination of soil,
    - Absence of technology, and
    - Poverty.
- India did not undergo any industrialisation as all the raw materials were exported to the UK.
- Handicrafts and other small-scale industries suffered badly.
- The main intention of British rule was to make India, a market of their finished products.
- In India, many industries developed even in the time of crisis. For example, the jute industry in West Bengal and the cotton textile industry in regions of Gujarat and Maharashtra.

The Industries

- Tata Iron and Steel Company (TISCO) was incorporated in the year 1907.

- By the middle of the 20^{th} century, some other industries such as cement, sugar, paper, etc. were established.

- As all the above discussed industries were concentrated in some specific pockets of the country; therefore, there was no improvement in the condition of the farmers.

- During the colonial period, India became the exporter of jute, cotton, sugar, indigo, wool, etc. and importer of finished products such as cotton and silk fabrics, woollen cloth, machinery, and other items.

- More than 50 percent of India's trade was directed to Britain; remaining 50 percent were traded in other countries including China, Sri Lanka, and Persia (Iran).

- '*Muslin*' is a type of cotton textile which originated in Bengal, particularly, places in and around Dhaka (previously Dacca), now the capital city of Bangladesh. Hence, it was also popular as '*Daccai Muslin'.*

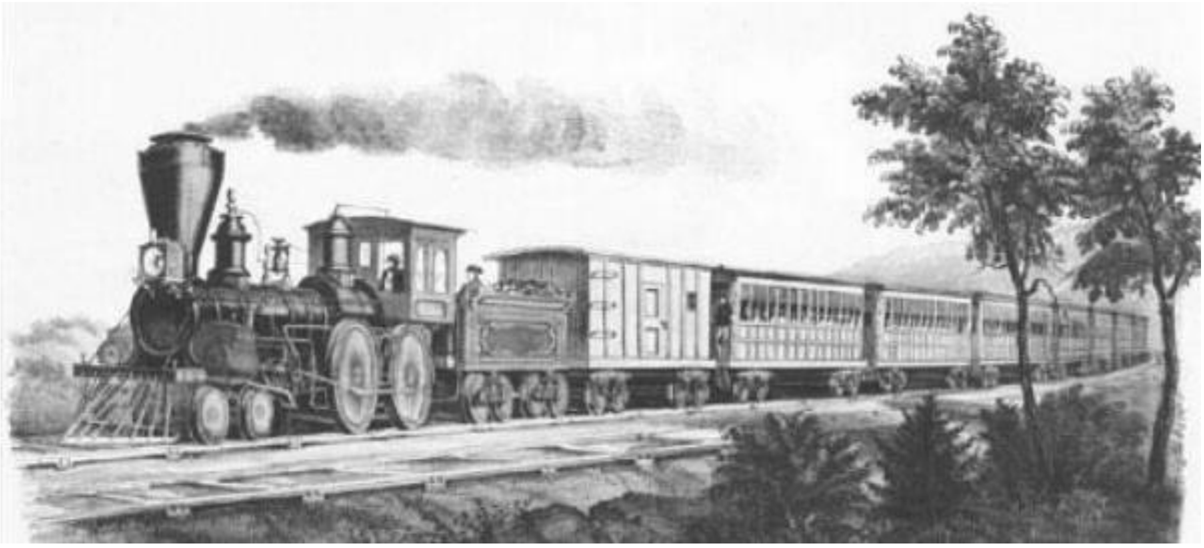
- Because of its quality, Muslin earned popularity across the world. Sometimes, foreign travelers also used to refer to it as malmal shahi or malmal khas implying that it was worn by, or fit for, the royalty .

The following image shows the dress made up of *Muslin* (the dress worn by the lady) and inset (image) shows the *Muslin* fabrics.

Other Facts

- The surplus income of India was used in setting up the official infrastructure for the British officers.

- During the British period, some of the infrastructure such as road, rail, telegraph, ports, water transport, etc. were developed, but all these were developed not for the benefit of Indians, but, rather to serve the interests of British officials.



- The railway, which was developed in the 1850s broke the barrier of long distance travel and trade. It also fostered the commercialisation of Indian agriculture. But this could hardly be of any help to the farmers.
- The regional disparity was high, as the Madras Presidency (entire South India) was more into manufacturing and services sector and rest of India was in the agricultural sector.

2. Planning

Introduction

- After independence, one of the most difficult choices that the leaders had to make was to decide the type of economic system that was capable enough to promote welfare equally across the country.
- Among different types of economic system, Pandit Jawaharlal Nehru, the first Prime Minister of India, suggested "**Socialist Economy**;" however, it was not the same that was practiced in the USSR.
- After great efforts, the planning committee decided to adopt a **mixed economic system** – a judicious mix of both socialist and capitalist systems.
- Mixed economy was finally chosen with the help of **Industrial Policy Resolution of 1948** and Directive Principle of Indian Constitution.
- **Planning Commission was set up in 1950**, and the Prime Minister of India was made the chairperson of the commission.

Five-year Plans

- The First Five-Year Plan was one of the most important as it paved for the development of the country then and for the years to come..

- Five-Year Plans are formulated very systematically in which all the problems are considered and addressed on priority basis. For example, agriculture development was the most important after independence, hence, the first five-year plan was drafted to strategically propel its growth and development.

Goals of Five-year Plan

Any plan should have a specific goal to fulfil. The goals of the Five-Year Plans are mentioned in the following image:

Growth

- This goal was directed towards an increase in Gross Domestic Product (GDP) of the country. The different sectors of the economy — the agricultural sector, the service sector, and the industrial sector are considered when a country's GDP is derived.

Modernization

- For the swift growth and also to increase the productivity, modernization was necessary; hence, new agricultural technology (use of machinery and hybrid seed varieties) as well as advanced machinery for factories were used.

- Apart from the modern technology, social status of women was also considered and they were granted equal rights.

Self-Reliance

- To develop all the sectors and make India a self-reliant country, only indigenous resources and technology were promoted during the first seven five-year plans.

- Another purpose of self-reliance was – India did not want to depend on any other country for food and important technologies, as it could be a threat to country's sovereignty as well.

Equity

The above mentioned goals would not be fruitful or lead to the betterment of the people unless there is equality.
To ensure equity, the following steps have been taken:

- Implementation of the **Land Reforms Act** was a turning point under which, the government abolished the existing '*Zamindari*' system and the tillers (farmers) were made the owners of the respective land.

- **Land Ceiling** was another commendable act under which the maximum size of land plots an individual can own was fixed.

- The purpose of land ceiling was to prevent the concentration of land ownership in the hands of few people.

- There were some loopholes in the land ceiling law and the implementation methods were also poor; therefore, the land ceiling was not as successful as it should have been. Only Kerala and West Bengal adopted this policy with full commitment.

- The Green Revolution marked a significant change in the field of agriculture in India. It promoted the use of **High Yielding Variety** (HYV) seeds. This further increased the yield of wheat and rice.

- Primarily, the use of HYV seeds was limited to a few states — Punjab, Andhra Pradesh, and Tamil Nadu, but after the late 1970s, many other states also started benefitting from the use of HYV seeds and improved the agricultural production on their fields.

- Use of HYV seeds benefited farmers in the form of **market surplus,** i.e., farmers were now producing sufficient grains that could also be sold into the market.

- For the equal distribution and fair opportunity among rich and poor farmers, the government made a policy to provide agricultural loans to farmers at subsidized rates.

- Debate on Subsidy: Many economists accepted that the subsidies are good for the grass root level development, but there were a few who questioned it. However, unquestionably, subsidies brought change in India and proved beneficial for the farmers.

- A major drawback is that about 65 percent of the population is still occupied in the agriculture sector and is not finding employment in any other sector.

- Because of several problems and issues including poor infrastructure, lack of proper policy, lack of skilled human resources, the industrial sector could not undergo development until independence. Over a period of time, formulation of several industrial policies and the development of infrastructure merged in to mark the progress of the industrial sector in India.

- The focus of the second five-year was industrial growth. All major industries, that drove the progress of the Indian economy were in the public sector and the government's control over these increased during this period.

Industrial Policy

Industrial Policy Resolution is a resolution adopted by the Indian Parliament in 1956. It was formulated under the Second Five-Year Plan.

- This resolution categorized industries into three sectors:

    1. State owned industry;

2. Mixed i.e. state and private individual running industry together; and

3. Private sector.

- According to the industrial policy, the private sector (industry) was also kept under the state control. To open a new industry or to expand an existing one, the first prerequisite was to obtain a license from the government. Small Scale Industry

- In 1955, Village and Small-Scale Industries Committee (which is also known as ***Karve* Committee**) proposed to promote small-scale industries for rural development.

- To set up a small-scale industry in those days, maximum investment one could make was Rs.5 Lakh. The limit has gone up to Rs.1 Crore now.

Trade Policy

- As self-reliance was the primary objective, trade policy was not in favour of import of foreign goods.

- Import taxes of various goods were very high. This thereby, increased the cost of the goods in the target market.

- In addition to the above discussed conditions, quotas were also imposed and these quotas had an effect on the supply of these imported goods.

- This system was practiced only to protect domestic firms from the foreign competition.

- Thanks to these policies, results were also positive; GDP increased from 11.8 percent (1950-51) to 24.6 percent (1990-91) and the industrial growth rate was a remarkable 6 percent.

- After the implementation of the Trade Policy, industries were no more limited to just jute and textile, rather, they expanded their operations and new units were started.
- In spite of a significant growth, many economists criticized the economic policy, as it was largely controlled by the government. For example, in the telecommunication sector, people used to submit their applications months before they could actually get the connection.
- There was a huge debate on **public vs private sector**. Many believe, emphasis on public sector restrained the potential economic growth of India.
- On the other hand, the regulation of private sector through licensing system (which people call ***permit license raj***) curtailed the industrial growth potential of the country.
- High import tax and restriction on foreign trade also drew criticism.
- With the introduction of the new liberal economic policy of 1991, Indian economy addressed the prevailing economic problems through the following:
    - Liberalization
    - Privatization
    - Globalization

Prasanta Chandra Mahalanobis

Many of the economists and other scholars contributed to the formation and nurturing of the Indian economic system.

Some of them were simply outstanding and their names cannot be forgotten. For example, statistician Prasanta Chandra Mahalanobis.

P.C. Mahalanobis is a well-known architect of Indian Planning.

The second five-year plan (which in a real sense, was the beginning of economic planning in India), was based on the ideas of Mr. Mahalanobis.

Born and brought up in Calcutta, Mr. Mahalanobis went to Cambridge University (England) for his higher studies. Because of his contribution in the subject statistics, he was appointed as the Fellow (member) of Britain's Royal Society.

The Indian Statistical Institute in Calcutta was established by Mahalanobis. He also started a journal namely '***Sankya***.'

End of ebook preview

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