

chapter-2 (Indian Economy 1950-1990)

- 1.The Goals of five year plans
- 2.Agriculture
- 3.Industry and trade
- 4.Trade policy:Import Substitution

Difference between Capitalism, Socialist and Mixed Economy

	Capitalist	Socialist	Mixed
Who Owns Means of Production	Private Sector	Govt	Both
What to produce?	Goods which are in More Demand Earn more Profit	Goods which Society Needs	Both
How to Produce (Labor or Machine)	Whatever profitable (Saves Cost)	As per needs of Society	Both
How goods Distributed Among People	As per Purchasing Power	What Society Needs	Both
Example	USA	USSR, North Korea	India

What is Structural Composition of Economy

It is the contribution of Different Sectors to Economic Growth (GDP)

There are 3 Sectors of Economy

Different Sector of Economy



Agriculture Sector



Industrial Sector



Service Sector

For a less Developed Economy, Share of Agriculture Sector is Higher in GDP

As a Country becomes more developed, Share of these Sectors Increase in GDP

Indian Economy

Before
Independence
(British Rule till
1947)



Chapter 1
Indian
Economy on
the Eve of
Independence

After
Independence
(Indian Govt Rule)

Till 1990



Chapter 2
Indian
Economy
1950-90

From 1991



Chapter 3
Economic
Reforms
Since 1991

*This we will
study in this
Chapter*

3 Main Economic Decisions in any Country

How to

What to produce?



*For Whom
to Produce?*



Capitalist
Economy

Mixed
Economy

Socialist
Economy

There are 3 Main Economic Decisions
What to Produce?
How to Produce?
For whom to produce?
*(How Goods and Service Distributed
Among People?)*

The Goals of five year plans

1. Growth- It refers to increase in the country's capacity to produce the output of goods and services within the country.

Growth – Goal of 5 Year Plans

What is Growth

It is Increase in Capacity to Produce Goods and Services. It means following

Larger Stock of Productive Capital

Earlier



Less Factories

Now



More Factories

Large Stock of Supporting Services

Earlier



Less Banks

Now



More Banks

Increase in Efficiency of Productive Capital

Earlier



One Machine
Produced 2 Piece

Now



One Machine
Produced 5 Piece

Which Country has More Economic Growth?

India



GDP of India = 2 Trillion \$

Less Economic Growth

USA



GDP of USA = 20 Trillion \$

More Economic Growth

How is Growth Measured?

It is measured with help of GDP

*(GDP means Gross Domestic Product
It is Value of Goods and Service
Produced in a Country)*

More the GDP, More the Economic Growth

2.modernisation- To increase the production of goods and services the producers have to adopt new technology. change in social outlooksuch as the recognition that women should have the same rights as men.

Different types of Modernisation *teachoo*

Modernisation of Technology

Discarding Obsolete Technology

Example
Using Computer in place of Typewriter

Earlier



Typewriter

Now



Computer

Modernisation of Social Outlook

Discarding Old Social Beliefs

Example
Allowing Women to Work instead of getting them married early

Earlier



Girls Married Early

Now



Girls Allowed to Work

Modernization means not only use of New Technology but also Change in Social Outlook

Modernization – Goal of 5 Year Plans

It means Adapting New Technology to Increase Output

Earlier (Old Technology)



Industrial Work by Labor



Agriculture Using Bullock Carts



Accounting on Paper

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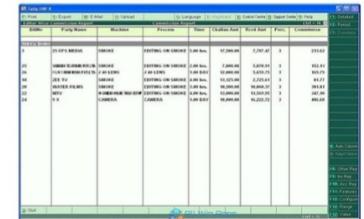
Now (Modernization)



Industrial Work by Machines



Agriculture Using Tractors



Accounting On Computer

Modernization -Advantages and Disadvantages

Old Technology



Industrial Work
by Labour

Disadvantage

Less goods
produced by
Labor
(Less
Production
Efficiency)

Advantage

More Labour
Employed
(Create
Jobs)

New Technology (Modernization)



Industrial Work
by Machines

Advantage

More goods
Produced by
Machine
(Increase in
Production
Efficiency)

Disadvantage

Less labour
Required
(Reduces
Employment
Opportunities)

What was needed to Improve Industrial Sector



Very few
Industries



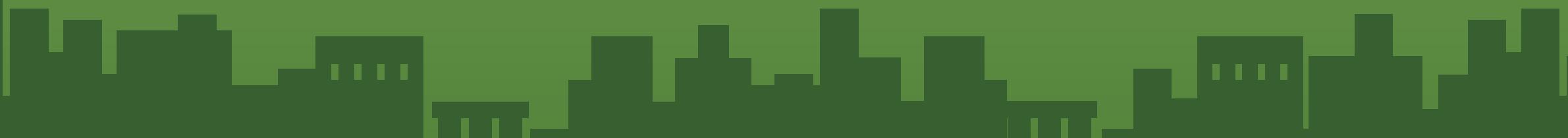
Majority Small
Industries



Private Sector Not
interested to Set up
Large Industries

Government
Investment
Required
in Setting up PSU

3. Self-reliance- The first seven five year plans gave importance to self-reliance which means avoiding imports of those goods which could be produced in India itself.



Other Importance of Self Reliance Goal

What happened during British Rule



Large Scale Unemployment and Poverty in India



Agricultural Productivity Declined Goods Imported from USA

Why India Chose Self Reliance

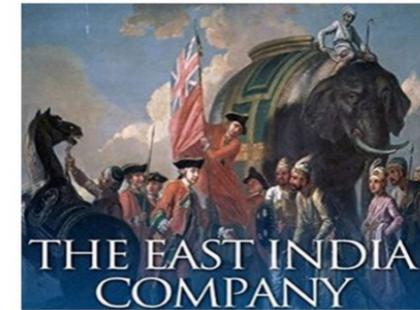


Reduce Unemployment and create jobs



Prevent Dependence on Food and make India Self sufficient

What happened during British Rule



British Entered India for Trade, Later ruled over India



British Destroyed Local handicraft Industry, Promoted their goods

Why India Chose Self Reliance



To Prevent Foreign Interference in India's affairs



India Chose Self Reliance To Promote Local Economy

4.Equity-Now growth,modernisation and self-reliance,by themselves, may not improve the kind of life which people are living.in addition to growth,modernisation and self-reliance,equity is also important.Every Indian should be able to meet his or her basic needs such as food,a decent house,education and health care and inequality in the distribution of wealth should be reduced.

Equity – Goal of 5 Year Plans

Difference

Equality



What is Equality

*It means
Treating
Everyone Equally
(Whether Rich or
Poor)*

Equity



What is Equity

*It means social
justice and
fairness to all
sectors of
society*

*(Providing
opportunities
to all sectors of
economy as per
their need)*

Why is Goal of Equity Important for India



Inequality in India

*Few People very Rich
Majority Very Poor*



Benefit of Economic Growth doesn't reach all

*Rich get Majority
Economic Benefit
Poor get very less and
remain poor*



Basic needs of Poor Not Fulfilled

*Of Many People not
fulfilled*

Importance of Equity

Equity Required to

- *Reduce Inequality*
- *Meet Basic Needs of People*
- *Ensure Benefit of Economic Growth
reach all sections of Society*

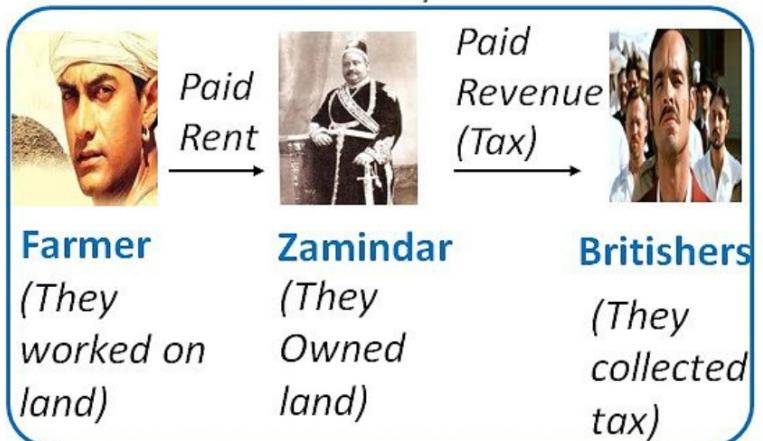
Agriculture sector was most important sector at the time of independence,because 75% people depend on it,so without amendment in this sector growth of economy can,t imagined.

Amendments-

- 1.land reforms
- 2.green revolution
- 3.Subsidies

During British Rule

There was Zamindari System



Land reforms

The purpose of this was to reduce concentration of land holding in few hands

What Was Land Ceiling

During British Rule

Few persons in village owned large area of land while majority were landless

Example

Suppose there are 6 persons in Village- A,B,C,D,E,F and G
Land held by them as follows

A	B
	C
	D

Majority of Land with A,
No Land with E,F and G

Measure Taken by Govt – LAND CEILING

Govt fixed maximum size of land which could be owned by an individual

Example

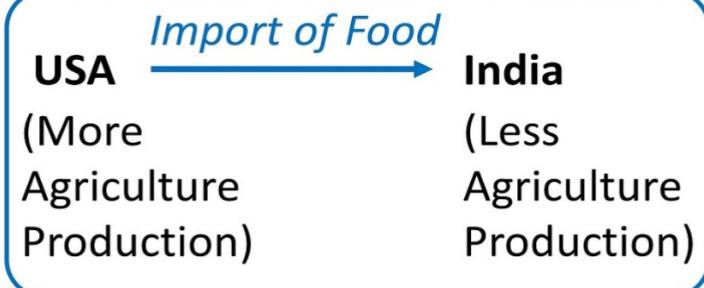
Some Land taken from A and given to E,F,G

A	E	B
	F	C
	G	D

Why was Green Revolution Launched?

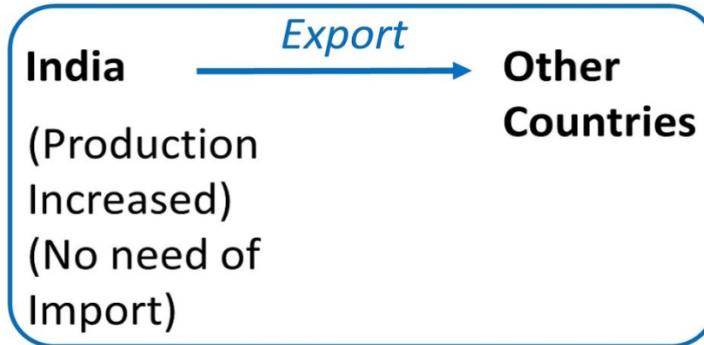
During British Rule

Agriculture Production in India was not sufficient,
So food grains imported from USA



Measure Taken by Govt After Independence

Green Revolution launched in Mid 1960'S to make India Self Sufficient
Now no need of Importing food grains,
Instead India became exporting them



How Green Revolution Carried Out

Resources Required for Agriculture Growth



High Quality Seeds



Fertilizers And Pesticides



Proper Water Supply

Steps taken During Green Revolution

Govt Provided HYV Seeds (High yielding Variety Seeds)

Govt provided necessary infrastructure by establishing Fertilizers and Pesticides Industries Providing Subsidy (discount) on Fertilizers/Pesticides

Govt provided necessary infrastructure by making Dams for Irrigation

Green revolution

Agricultural Subsidy

Agricultural Production

Incentive or Discount

It is Incentive given to farmers to increase Production

Different Types of Subsidy

Free Facility

Electricity/Water given to Farmer free of cost



Electricity Price
5 Rupees/unit

Price to Farmer
Free

Discounted Facility

Fertilizers given to Farmers at Cheaper Rate



Actual Price
Rs 1000/Packet

Price to Farmer
800/Packet

subsidies

Drawbacks of Agricultural Subsidy



Misuse of Resources

(People misuse free electricity/water for personal purposes)



Harmful to Environment

Overuse of Fertilizers/Pesticides damages crops as well as soil. It is also harmful to our bodies when we consume it

industries are backbone of economy without industrialization no one country get economically stable, so our government take many steps towards industrialization at the time of independence.

1.industrial policy resolution 1956- industries were divided in three category -

- .Gov sector
- .semi Gov sector
- .private sector

many other steps were taken for economical growth with industrialization-

Industrial policy

Followed After Independence

Schedule A Industries	Schedule B Industries	Schedule C Industries
They are owned exclusively by Government	They are started by Government	They are owned exclusively by Private
supplemented Sector by Private Sector		
(Total 17 Industries)	(Total 12 Industries)	(All Other Industries)

Example



Strict Control of Govt by System of License (License Raj)

What to Produce?



OR



Luxury Train (for Rich)

Ticket
Rs 200000

Capitalist Economy

→ Goods which are in Demand & will earn More Profit

Socialist Economy

→ Goods which Society Needs

Mixed Economy

→ Market
Produces those goods which will be more profitable
Govt
Produces Essential Goods which Market doesn't produce

How to Produce- Labour or Machine?



OR



Construction
using Labour

Construction
using Machine

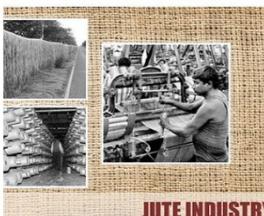
Capitalist Economy → *Whatever is Profitable*
If Using Machine Saves Cost, Machine used
If labour cheaper then labour used

Socialist Economy → *What Society Needs*
Labour used more in case of unemployment

Mixed Economy → Market Makes What is Profitable.
Govt makes what society needs



What was needed to Improve Industrial Sector



JUTE INDUSTRY

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Need for
Diversification



Need to Set up
Large Industries



Government
Investment
Required
in Setting up PSU

License Requirement in Different Regions

Factory Set up in Backward Area



- Getting License was Easy
- Tax Benefits
- Cheaper Electricity

More Industries Set up In Backward Areas, (led to their development)

This was done to Promote Regional Equality

What was the Reason of License Requirement?

It was done to Remove Regional Disparity (ensure backward region of India are developed)

Factory Set up in Developed Area



- Getting License was Difficult
- No Tax Benefits
- Normal Rate of Electricity

So Less Industries Set up In Developed Areas



What is License Raj

(System of License for Private Sector)



If Private Sector wanted to



Set up new industry



Increase Production

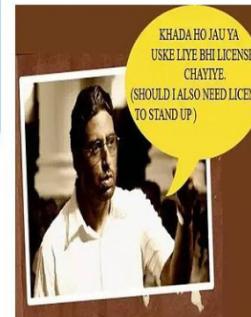


Diversify (Start manufacturing New Product)

License Required



LICENSED



What were drawbacks of India's Industrial Policy?

teachoo

India's Trade and Industry Policy

Establishment of PSU



(Govt Owned Large Industries Called Public Sector Enterprises)

License Raj over Private Sector



(Small Industries Operated under Strict Control of Govt)

Import Substitution



(Imports were Discouraged to Promote Indian Industry)