

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** *teachoo*

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

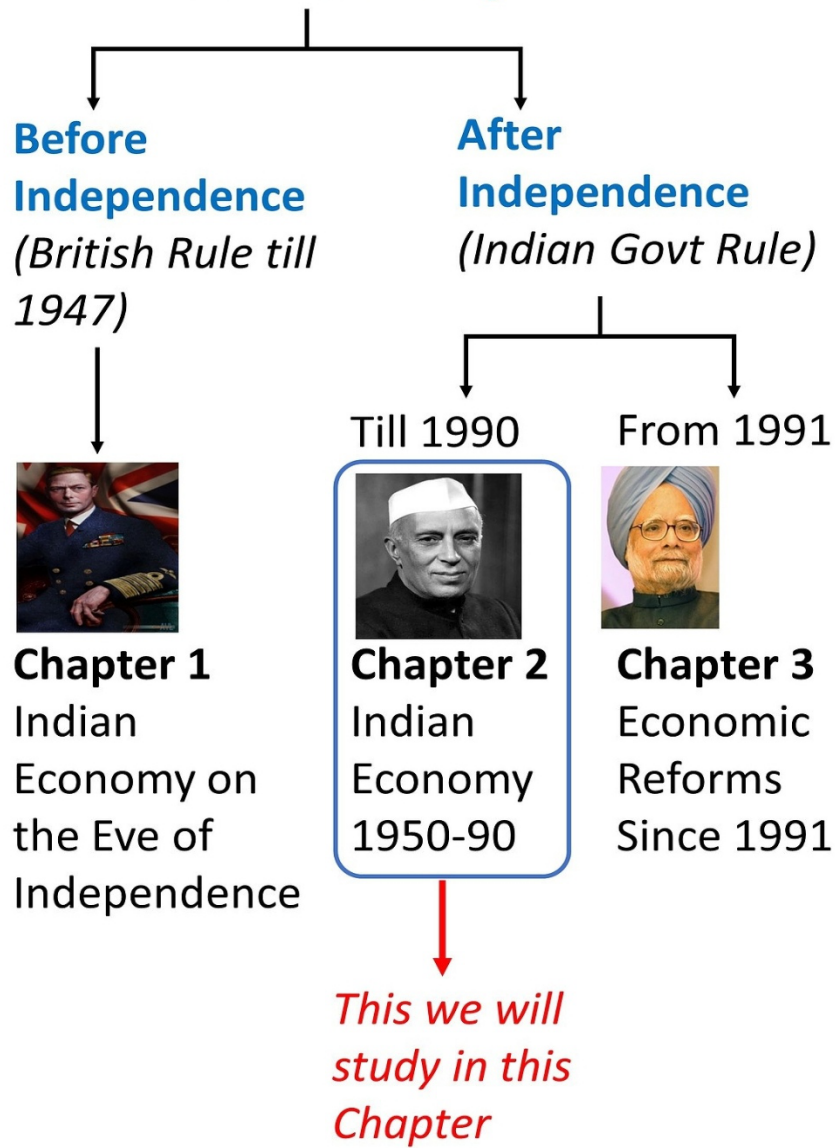


Service Sector

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



3 Main Economic Decisions in any Country



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 – *teachoo*

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?

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India

Indian Economy



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 *teachoo* of Modernisation

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

Now

(Modernization)



Industrial Work
by Machines



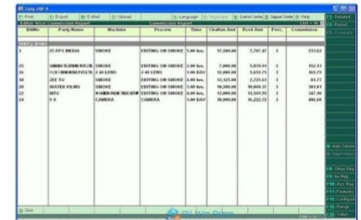
Agriculture Using
Bullock Carts



Agriculture
Using Tractors



Accounting on
Paper



Accounting On
Computer

Modernization

-Advantages and Disadvantages

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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

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Very few Industries



Need for Diversification



Majority Small Industries



Need to Set up Large 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



**AATMA-NIRBHAR
BHARAT**

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 be imagined.

Amendments-

1. land reforms

2. green revolution

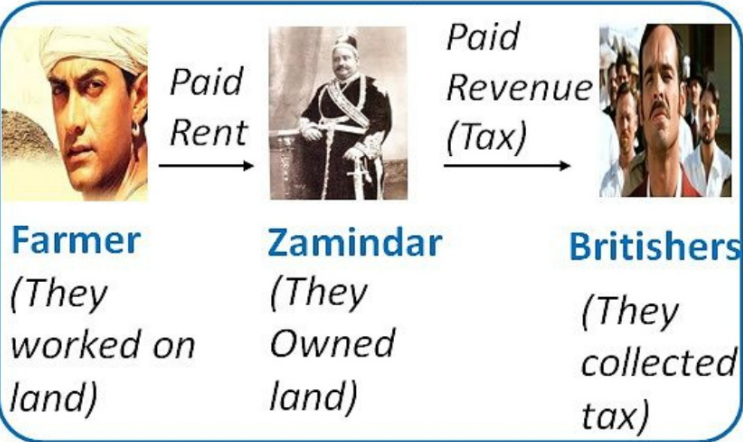
3. Subsidies



What Were Land Reforms

During British Rule

There was Zamindari System



Measure Taken by Govt After Independence → LAND REFORMS

Zamindari System Abolished
Cultivators became owners
No tax/Rent to be paid on Agriculture



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

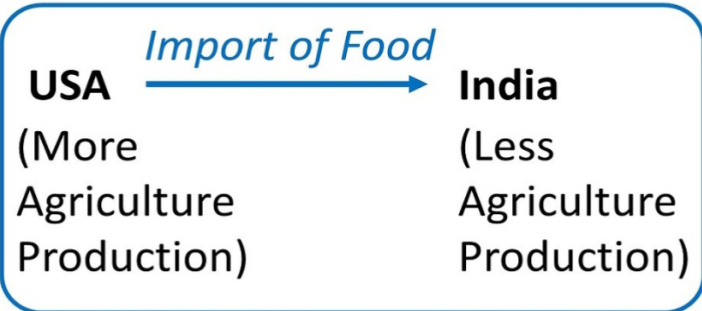
Some Land taken from A and given to E,F,G

A	E	B
	F	C
	G	D

Why was Green Revolution *teachoo* Launched?

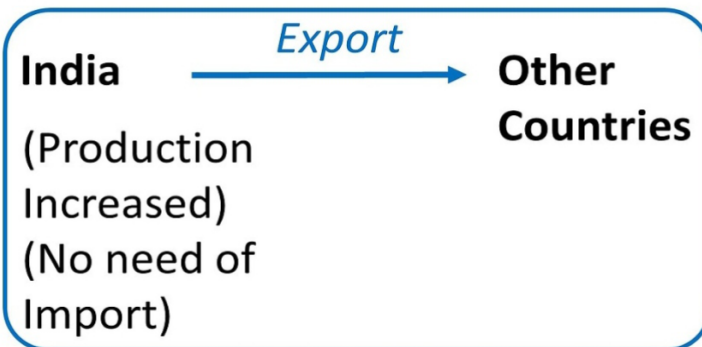
During British Rule

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*



Green revolution

How Green Revolution *teachoo* Carried Out

*Resources Required
for Agriculture
Growth*

*Steps taken
During Green
Revolution*



*High Quality
Seeds*

Govt Provided HYV
Seeds (High yielding
Variety Seeds)



*Fertilizers
And Pesticides*

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



*Proper Water
Supply*

Govt provided
necessary
infrastructure
by making Dams
for Irrigation

Agricultural Subsidy

↓ ↓
Agricultural Incentive
Production 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/Package

Price to Farmer

800/Package

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

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

What to Produce?



Luxury Train (for Rich)

Ticket
Rs 200000

Capitalist Economy

Socialist Economy

Mixed Economy

OR



General Trains (For Poor)

Ticket
Rs 20

Goods which are in Demand & will earn More Profit

Goods which Society Needs

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

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*Very few
Industries*



*Need for
Diversification*



*Majority Small
Industries*



*Need to Set up
Large Industries*



*Private Sector Not
interested to Set up
Large Industries*



PUBLIC SECTOR UNDERTAKING

*Government
Investment
Required
in Setting up PSU*

License Requirement in Different Regions

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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)

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

This was done to Promote Regional Equality

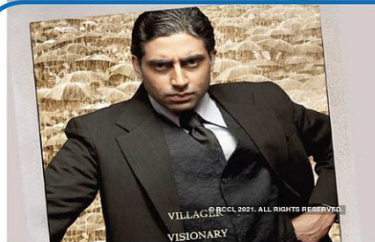
What was the Reason of License Requirement?

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

What is License Raj

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(System of License for Private Sector)



If Private Sector wanted to



Set up new industry



Increase Production

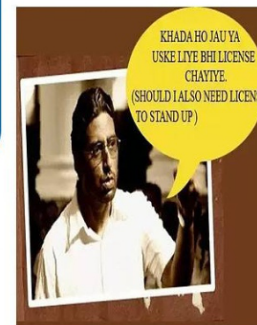


Diversify (Start manufacturing New Product)

License Required



LICENSED



What were drawbacks of India's Industrial Policy?

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India's Trade and Industry Policy

