

## INDIAN ECONOMY

1950 TO 1990

### ***1. What is an economic system?***

An economic system is a system of production, resource allocation and distribution of goods and services within a society.

### ***2. Explain the three different economic systems.***

(i) Capitalism: Resources are owned by private individuals. The private individuals produce goods and services in order to earn profit. Basic questions are solved by the market forces of demand, supply and price. Government's role is limited.

(ii) Socialism: Resources are owned by the society. The Government undertakes the production of goods and services. The aim, of production is welfare of the people. Economic Planning solves the basic questions.

(iii) Mixed Economy: It is a combination of capitalism and socialism. Private and public sectors co exist.

### ***3. Why was it not possible for India to adopt for India to adopt Socialism as followed in Soviet Union.***

In Soviet Union, there was no private property. India became a democratic Republic. In a democracy, it is not possible to deny the right to own property to people.

### ***4. Why is Mahanlobis know as the architect of Indian Planning?***

Systematic economic planning started in India with the Second Five Year Plan. It mentioned the goals of planning. This plan was based on the idea of Mahanlobis. So, he is called the architect of Indian Planning.

### ***5. For which contribution is P C Mahanlobis regarded high by Statisticians and Economists all over the World?***

Mahanalobis established the Indian Statistical Institute and started a journal Sankhya.

### ***6. Why did India adopt Mixed Economy?***

(i) Economic condition of India was backward at the time of Independence. So, we wanted both private public sectors to take our country to progress.

(ii) Socialism was adopted as our national goal. So, importance was given to the growth of public sector.

(iii) India became a democratic country. So, people had to be given the right to own resources.

### ***7. Who formulates plans in India?***

Planning commission was set up in 1950 to formulate Plans in India. The Prime Minister is the Chairman of the Planning Commission. In 2015, Niti Ayog was set up to replace Planning Commission.

### ***8. When was Planning initiated in India?***

Planning Commission was set up in 1950. The First Five Year Plan was started in 1951.

### ***9. Define a Plan.***

According to the planning commission, “Economic Planning refers to the utilization of country’s resources in to different development activities in accordance with national priorities”.

### ***10. Why did India opt for planning?***

India opted for planning because:

(I) India adopted mixed economy as her economic system. It is a combination of socialism and capitalism. Planning is needed to solve the basic questions in the public sector.

(ii) India wanted to achieve quick economic progress in order to abolish poverty and unemployment. Planned use of resources is necessary for quick economic progress.

(iii) India wants the equitable distribution of resources and income. Planning would help to achieve this goal.

### ***11. Why should plans have goals?***

Every nation has some national goals. It is government’s duty to make efforts to achieve these goals. Planned use of resources will help to achieve these goals. So, the most important and urgent goals of the nation are set as the goals of plans.

### ***12. Explain the goals of Economic Planning in India.***

(i) *Economic Growth*: Economic growth refers to increase in production capacity. GDP is a good indicator of Economic Growth. In economic planning importance is given to the development of agriculture, industry and service sectors. This will help in increasing the GDP. More goods and services will be available to the people.

(ii) *Equity*: Socialism is one of our National Goals. The benefits of economic growth should reach the poorer sections of the society. Everyone should be able to enjoy the basic facilities of life. Poverty has to be abolished. The gap between the rich and poor should be reduced. Plans contained several programmes for the poor people.

(iii) *Modernisation*: It refers to adoption of modern technology. New methods of production should be adopted in primary, secondary and tertiary sectors. This help to increase productivity. Plans give importance to the development of Science and Technology.

Modernisation also refers to modernization of society. Education must spread among the people. Condition of women should improve. Social evils should be abolished.

(iv) *Self Reliance*: Self reliance means dependence on domestically produced goods.

Dependence on other countries for food and other essential commodities may harm our freedom to take independent decisions on world affairs.

Efforts to achieve self reliance will help in the growth of home industries.

Self reliance will generate employment opportunities and reduce the problems of unemployment and poverty.

***13. What is sectoral composition of an economy? Is it necessary that the service sector should contribute maximum to GDP of an economy? Comment.***

The structural composition of an economy is the contributions of different sectors to the GDP of the economy in a year.

Primary Sector, Secondary Sector and the Tertiary Sector are the different sectors of the economy. The service sector should contribute maximum to the GDP of an economy because:

(i) Service sector provides the services which are highly valued in the market. If the service sector makes largest contribution to GDP, the GDP of the country will be big.

(ii) People employed in service sector are highly paid. This enables them to lead a high standard of living.

(iii) Services provided by this sector like transport, banking, insurance etc. help in the growth of the other two sectors.

(iv) Services like education and health services help in the overall development of the society.

**14. Explain growth with equity as a planning objective.**

Socialism is one of our National Goals. The benefits of economic growth should reach the poorer sections of the society. Everyone should be able to enjoy the basic facilities of life. Poverty has to be abolished. The gap between the rich and poor should be reduced. Plans contained several programmes for the poor people.

**15. Does modernisation as a planning objective create contradiction as a planning objective in the light of employment generation? Explain.**

Modernisation refers to the adoption of modern technology. Primitive methods of production are the main reasons behind economic backwardness. So, steps are taken to improve science and technology.

Adoption of new technology may reduce employment opportunities in the short run. However, it will lead to overall economic development and the generation of more employment opportunities in the long run. For example, when computers were introduced in India many people opposed it on the ground that it would lead to unemployment. But, now the computers are providing employment to a very large number of men and women. So, modernization as a planning objective does not create any contradiction.

**16. Why was it necessary for a developing country like India to follow self reliance as a planning objective?**

Self reliance means dependence on domestically produced goods.

(i) Dependence on other countries for food and other essential commodities may harm our freedom to take independent decisions on world affairs.

(ii) Efforts to achieve self reliance will help in the growth of home industries.

(iii) Self reliance will generate employment opportunities and reduce the problems of unemployment and poverty.

**17. What are High Yielding Variety (HYV) Seeds?**

The agricultural scientists have developed some new seeds which have the ability to yield more output than the traditional seeds. These new seeds are called HYV seeds.

**18. What is marketable surplus?**

The farmer uses a part of his output for self consumption. The remaining he sells in the market. That part of the output which the farmer is willing to sell in the market is called marketable surplus.

**19. Explain the need and types of land reforms implemented in the agriculture sector.**

Land reforms refer to the steps taken to provide ownership rights to the real tillers. The land tenure system introduced by the colonial government in India was unjust. The land was owned by intermediaries standing between the tiller and the soil. These intermediaries did not take any step to increase agricultural productivity. Our agricultural sector was in a backward condition at the time of independence. So, land reforms were needed.

*Types of land reforms*

(i) *Abolition of Zamindari System:* Under permanent settlement, the lands were owned by the zamindars. The peasants who cultivated those lands had to pay rent to the zamindar. Immediately after independence, Zamindari system was abolished. The lands of the Zamindars were transferred into the hands of the peasants who cultivated them.

(ii) *Land ceiling:* The government fixed the maximum area of land that can be owned by an individual. If anyone owned more than the fixed ceiling, the government could take over the surplus land and distribute it among the landless.

**20. What is Green Revolution? Why was it implemented and how did it benefit the farmers?**

Green Revolution refers to the large increase in the production of food grains resulting from the use of HYV seeds especially for rice and wheat.

Green Revolution was implemented with the aim of achieving self sufficiency in food grains. It also aimed at avoiding famines, abolishing poverty and overall development of agricultural sector.

*It benefited the farmers in the following ways.*

- (i) Agricultural output increased enormously. So, farmers had marketable surplus.
- (ii) Income of the farmers increased. They could come above the poverty line.
- (iii) India could achieve self sufficiency in food grains. Famines could be avoided.
- (iv) The government could collect huge quantities of food grains from the farmers and maintain a buffer stock.

**21. While subsidies encourage farmers to use new technology, they are a huge burden on government finances. Discuss the usefulness of subsidies in the light of this fact.**

#### **Arguments against subsidies**

- (i) Soon after independence, it was necessary to give subsidies to encourage the farmers to adopt the new technology. Now, the new technology is widely adopted and it is profitable. So, subsidies can be abolished.
- (ii) Subsidies mostly benefit only the fertiliser industry and the rich farmers. The poor farmers and agricultural workers are not benefited.
- (iii) The government has to spend a major part of its income to provide subsidies. So, the government does not have adequate resources for developmental activities.
- (iv) Subsidies encourage the farmers to use more fertilisers than required. This destroys the natural fertility of the soil.

#### **Arguments in favour of subsidies**

- (i) Farming in India is risky. Subsidies are needed to encourage the farmers to take the risk.
- (ii) Most of the farmers are poor. They cannot afford to buy the agricultural inputs without subsidies.
- (iii) Abolition of subsidies will widen the gap between the rich and the poor.

*So, the government must continue to give subsidies. It can be limited to the poor farmers.*

**22. How did the Government ensure that the small farmers also benefit from the Green Revolution as the rich farmers?**

- (i) The Government gave loans to small farmers in order to meet the cost of new HYV technology.
- (ii) The Government supplied HYV seeds and fertilisers to small farmers at subsidized rates.
- (iii) The Government developed irrigation facilities.

**23. How did the Green Revolution enable Government to procure sufficient food grains and build its buffer stocks?**

The adoption of new HYV technology resulted in increase in agricultural productivity. Farmers had surplus food grains to sell in the market. Supply of food grains increased. Prices of food grains decreased. The Government collected food

garins and maintained a Buffer Stock. Per capita availability and per capita requirement food grains are equal.

***24. Why, despite the Implementation of Green Revolution, 65% of our population continued to be engaged in agricultural sector till 1990?***

Industrial and service sectors failed to absorb surplus labour from the agricultural sector. Output of Industrial and Service sectors increased several times since Independence. But the increase in job opportunities was very less.

***24. Explain the policy of land to the tillers and its benefits.***

Land to the tiller refers to the policy of giving ownership rights of lands to the peasants who cultivate those lands. Land should be taken away from the landlord and distributed among the peasants.

- (i) Ownership of land will encourage farmers to work hard and improve productivity.
- (ii) It will enable the peasants to adopt modern agricultural methods.
- (iii) It will improve the economic condition of peasants and reduce the inequality between the rich and the poor.

***25. In which two States were land reforms successful?***

Kerala and West Bengal

***26. Why were the land reforms not implemented successfully?***

- (i) Zamindars made use of the loopholes of the land reform laws. They continue to own large areas of land.
- (ii) Land ceiling laws were challenged in the court by the Zamindars. Then they registered their surplus lands in the name of their relatives.
- (iii) In many places heavy rent is collected from the peasants.
- (iv) The land lords evict the peasants from the land that they cultivate.

***27. What were the negative effects of Green Revolution?***

- (i) Green Revolution benefited only the rich farmers. The new technology was expensive. Marginal and small farmers did not have money needed to adopt it.
- (ii) Green Revolution was limited to few crops like wheat and rice. HUV seeds were not available for many crops.
- (iii) Use of chemicals and over irrigation resulted in the degradation of soil.

***28. Examine the importance of Industrial Sector.***

- (i) Industries provide regular employment to a large number of people.

- (ii) Industries promote modernization and help to achieve economic development.
- (iii) Industries provide fertilizers, pesticides and machines needed for agriculture.
- (iv) Industries provide the equipments needed for providing transport and communication facilities.

**29. Why was Public Sector given a lot of importance in the Industrial policy followed from 1950 to 1990?**

*Public Sector given a lot of importance in the Industrial policy followed from 1950 to 1990 because:*

- (i) Private Sector was not developed in India. Private industrialists did not have the capital needed for investing in large scale units needed for the development of our country.
- (ii) Market for industrial goods in India was not large enough to attract investment by private individuals.
- (iii) India adopted socialism as our national goal. To achieve socialism, development of public sector was needed.
- (iv) Second Five Year Plan gave importance to the development of Public Sector.

**30. State the main features of the Industrial Policy Resolution of 1956.**

(i) Industrial Policy Resolution of 1956 aimed at developing our economy on Socialist lines. It formed the basis of the Second Five Year Plan.

(ii) It classified industries in to three categories:

(a) Category 1: Industries in this category are reserved for the Public Sector.

(b) Category 2: Most of the units are to be in Public Sector. Private Sector units can also continue to exist. However, new units should be opened only in the Public Sector.

(c) Category 3: Industries in this category are left to the Private Sector.

(iii) Private Sector units were brought under the Government control by a system of licenses. Units set up in backward areas were given many privileges.

(iii) Some products were reserved for the Small Scale Sector. Large companies will not be given license to produce these goods.

**31. How did Industrial Policy Resolution of 1956 classify industries?**

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(c) Category 3: Industries in this category are left to the Private Sector.

**32. What were the privileges given to the industrial units set up in backward areas?**

**OR**

***How did the Industrial Policy Resolution planned to achieve regional equality in Industrial growth?***

Industrial Policy Resolution provided many privileges to the enterprises set up in backward areas.

- (i) It was easy to get license if the unit is set up in a backward area.
- (ii) Units in backward areas were given several tax concessions.
- (iii) The Government provided electricity to them at lower rates.

**33. What do you mean by the license system introduced by the Industrial Policy Resolution of 1956?**

The Government wanted to regulate and control the private sector. So, a system of licenses was introduced.

- (i) A license was needed to start a new unit. It was easy to get license if the unit is set up in backward areas.
- (ii) To increase the production capacity of an existing unit, license had to be obtained.
- (iii) If a unit wanted to diversify production, license was needed.
- (iv) License was given only if the Government thought that those goods were needed to the society.

**34. Examine the importance of Small Scale Industries.**

- (i) The Karve Committee suggested the development of Small Scale industries for achieving rural development.
- (ii) Small Scale industrial units use labour intensive technology. They give employment to large number of people.
- (iii) They can be set up in backward areas. They help in achieving regional equality.

(iv) Capital needed to start a small scale unit is less. So, even ordinary people can start a unit with Government and Bank support.

***(35) What privileges were given to the Small Scale units under the Economic policy followed from 1950 – 1990?***

(i) A large number of products were reserved for the small scale sector. This was to protect them from the competition of large units.

(ii) They were given tax reductions.

(iii) Banks gave loans to small scale units at low interest rates.

(iv) Technical support and marketing support were also provided to them.

***36. What is small scale industry?***

The industrial units with less capital investment are called small scale units. In 1950, a unit with less than five lakh rupees was called a small scale unit. Today the limit is increased to one crore rupees.

***37. Explain the foreign trade policy followed by India from 1950 to 1960.***

***OR***

***Explain the Inward Looking Trade Policy followed by India after Independence.***

(i) India followed a policy of import substitution. Instead of importing goods from other countries, efforts were made to produce those goods in India.

(ii) Indian industries were not capable to compete with foreign companies. So, steps were taken to protect them.

(iii) Heavy import duty was imposed on imported goods.

(iv) The Government fixed import quota for several goods.

**38. How did the Trade Policy followed from 1950 – 1990 protect domestic industries? In what way the protection benefited our economy?**

Two forms of protection:

(i) **Tariff Protection:** The Government imposed heavy import duty on imported goods. This measure protected our industries from foreign competition.

(ii) **Quotas:** Quotas specify the quantity of goods that can be imported. Government fixed import quotas.

Protection saved our industries from foreign competition. It helped domestic industries to develop. Protection also reduced the use of foreign exchange to buy consumer goods.

***38. Analyse the impact of the Economic Policy followed from 1950 to 1990 on the Industrial Development of India.***

*Positive Impact*

- (i) Contribution of Industrial Sector to GDP increased from 11.8 percent in 1950 – 51 to 24.6 percent in 1990 – 91.
- (ii) Annual growth rate of industrial sector increased to 6 percent.
- (iii) Industrial Sector became diversified. We started making all the goods needed for our people.
- (iv) Basic and key industries and capital goods industries developed.
- (v) Promotion of small scale industries enabled even ordinary people to start industrial units.
- (vi) Protection from foreign competition helped domestic industries to develop.

*Negative Impact*

- (i) Public Sector units became less efficient and many of them became sick units.
- (ii) Big industrial units misused the system of license. They would get license not to start a unit but to prevent competitors from starting new units.
- (iii) The Permit License Raj discouraged private investors and prevented the growth of industrial sector.
- (iv) Lack of competition reduced the quality of services and goods provided by our producers.
- (v) Corruption and malpractices became widespread in the country.

***39. Examine the impact of Economic Policy from 1950 to 1990 on Indian Economy.***

*Positive Impact*

- (i) Contribution of Industrial Sector to GDP increased from 11.8 percent in 1950 – 51 to 24.6 percent in 1990 – 91. Annual growth rate of industrial sector increased to 6 percent.
- (ii) Industrial Sector became diversified. We started making all the goods needed for our people.

(iii) India could achieve self sufficiency in food grains. Green Revolution improved the living condition of our farmers.

(iv) Land Reforms helped many farmers to become owners of land

*Negative Impact*

(i) Public Sector units became less efficient and many of them became sick units.

(ii) The Permit License Raj discouraged private investors and prevented the growth of industrial sector.

(iii) Lack of competition reduced the quality of services and goods provided by our producers.

(iv) India failed to develop our export sector. Balance of Trade became unfavourable.

**40. When was the Karve Committee set up? What did it suggest?**

The Village and Small Scale Industries Committee ( Karve Committee) was set up in 1955. It suggested steps to promote small scale industries. It suggested the development of small-scale sector for the rural development of India.

**42. State the main features of the economic policy prior to 1990.**

(i) India adopted mixed economy. We wanted to develop both public and private sectors.

(ii) Economic Planning was introduced in order to achieve economic growth with equity.

(iii) Land Reforms were introduced to make the real tiller the owner of the land.

(iv) Public sector was given more importance in our industrial policy.

(v) Restrictions were imposed on private sector. The system of license was introduced

(vi) India followed an inward looking foreign trade policy. Heavy import duty and import quotas were introduced to protect domestic industries.