

BUSINESS ECONOMICS

CHAPTER 10 - INDIAN ECONOMICS

* NEW SYLLABUS CHAPTER *

* To learn thoroughly, one must revise multiple times

* Pre-Independence Period (1850 - 1947) : Status of India

1st - 17th century AD

India - largest Economy - of Ancient + medieval world
Self Reliant

Control of $\frac{1}{2}$ rd - $\frac{1}{4}$ th World Wealth.

Village
Self sufficient
Less opportunity than city.

City
centre of commerce
Pilgrim
Administration

Structure → labor division.

social-economic difference
as per
race, gender, class

main source - agriculture.
skilled craftsman.
handicraft made for World.

* Ancient Economic Philosophy

Earliest Treatise - Arthashastra By Kautilya Chanakya.

321 - 296 BCE

Statescraft work - political philosophy

Handbook for - King Chandragupta Maurya (Founder - Mauryan Empire)

Covered - Directive (Kingdom reign) + Action for Political Concern
- no regard to ethical consideration

Shift in Economic History - Advent of European + British.

1757 - 1858

Rule of East India Co.

1858 - 1947

British Govt

(Labor half of 18 century)

↓

Legacy of British
colonialism

↓

1947 - 1991

Post

independence-

(upto major
Economic
Reforms)

Onset of Industrial Revolution | Britain's manuf. capability increased

- Their industries needed Raw Material + Market for Finished Goods (FG)
- Used India
- India's Foreign Trade Reversed \Rightarrow From Exporter of manufacture — Raw Mat Exporter
- Heavy Tariff : Indian FG Export
Lower : Import { Discriminatory Tariff policy by British }
- Lost competitiveness
- Indian handicraft Destroyed \rightarrow Ext + Domestic demand \downarrow fell.
(Indigenous good)
- Hostile imperial Policy favour British + Competition with Machine + Domestic demand Shift to Foreign Goods (Western culture favoured) = Indian Manuf. Sector X destroyed.

Village

- Internal balance - traditional village economy (handicraft + agriculture) destroyed.

Impacts

- cheap + Machine made import from Britain
- Fashion shift Western
- Domestic industries ↓
- land tenure - Zamindari system
- A class arose who perpetuated ie took forward British Rule
- Zamindar — Excess rent

- Unempl. ↓
- alternate source X
- agriculture = livelihood now

INDIAN
AGRICULTURE
COLLAPSED
=

- land pressure
- sub division & fragmentation
- subsistence farming
- productivity ↓
- poverty ↑
- land demand under tenancy

- absentee landlords
- agriculturist debt ↑
- exploiter money lender
- productivity measures X

* Industrialisation during British Rule *

- stagnated
- no factory based production before 1850
- Modern industrial enterprise - Colonial India - started mid 19 cent

- Jute mills

- expanded - in Calcutta
- global rope demand.
- late 19th C : Large International Market
- 19th C end: Indian Jute Industry - Largest World. (highest jute raw mat)

- Cotton Milling

- II half 19th C
- international competitiveness
- Indian Industry cotton mill = 9 million spindles in 1930
↓
5th position World.

- Other Ind

- Brewing, paper mill, leather making, matches, rice mill,
- Heavy \Rightarrow Iron
1814 established by British capital
- 8th World Rank (output - 1930)

• India Ind. growth insufficient
• No transformation in Eco structure
• Manuf sector (not SS1, cottage) NDP share = 7% bad (1946)
• Factory employm share %
 \Rightarrow 1900: 0.4% Population 1941 = 1.4%

- 20th cent. Beginning

- some Ind - Global standards
- Before Great Depression: 12th Rank - Largest industrialised country

- producer goods industries

- No expansion \downarrow (goods to produce other goods)
- Reason: British Discouraged & made Bad Policy for those Indian Ind \Rightarrow competition with British.

Post Independence (1947-91)

situation

- India - rural, illiterate, deeply stratified, heterogenous society
- 1951: literacy \approx 18%, life \approx 32 yrs
- poverty \leftarrow income human capital

- Nehruvian Model - Social + economic redistribution + industrialisation
 - directed by state
 - dominated Post Indep. policy

- Core of Ind. Development — Centralized Eco Planning
- Policy made — reach rapid growth + Equity + Distributive Justice
- Planning Commission of India PCI formed.
 - ↓ ↓
 - 5 years Plans
- Political Leadership ⇒ Cg authority design Eco strategy + Do investment (with Pvt sector)
- Rapid Industrialisation — core — Nehru Developm Strategy
- Planned Modernisation — systematic planning — support Industrialists
- Bureaucrat + Technocrat = Visioned = state has imp. role

* Industrial Policy Resolution (1948) — role of public sector
+ licensing to Pvt sector

- Strategic areas — atomic energy, arms, ammunition, railway } state monopoly
- right to new investment in basic industry.

• 1950's policy aim → Nehru vision + Gandhian
 • socialist + heavy industry + SSI, cottage, village republic.

* I.P.R (1956) : comprehensive framework — ind. developm.

But Lopsided → Pros side no advantage

- Expansion of public sector ↑
- Private ↓

Negative Industrial Growth X

BUT
Till Late 1950 : open Foreign Invest Policy + Open Trade Policy
1958 : BOP crisis , Forex Deplete.

: Trade tightened,

Investment reduced.

Licensing new investment of Cap Goods.

↓

Import control until 1966

• 1950-1980 3 decade post independence.

India avg annual GDP growth% = Hindu g. rate = 3.5%

Agriculture — less focus, not neglect

1.5 decade focus — cap good- (dam, power plant, heavy ind.)

— Consumer X goods

* Mid 1960

Major shift in Ind. Eco. strategy

Agriculture — till now — no priority (2nd plan)

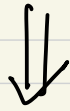
— expenditure ↓

— strategy ⇒ relied on ⇒ institutional model.

eg Land reform / farm cooperative

- Tech. Areas (R&D, Irrigation) X

- Productivity ↓



monsoon failed + 2 severe drought (1966, 67)

agri sector = (-) growth, food problem

US food aid (PL 480) scheme



needed: quantum jump → high priority needed.

* Change in Govt. Policies

Old Institution change X Productive Activities ✓

* Green revolution → agric prod, tech. progress, food prodⁿ ↑
food problem ↓

Meanwhile, In Trade & Industry

Govt → Extra Admin control

Nationalisation WAVE

Banks nationalised — 14 (1969), 6 (1980)

Interventionist policies (1960)

Economic

1965-81 Performance

- Worst in History, productivity ↓
- License Raj
autarchic policies } 1960, 70s
- Closed economy - so missed world help
- External shock
3 war (1962, 65, 71)
- Droughts (1966, 67)
- Oil shock (1973, 79)



Result → Decelerated Growth 2 decades

More Bad Situations:

- Policies of Equitable Distribution of Income, Wealth
↳ Killed wealth creation = Anti growth
- MRTP Act 1969 — regulated - Big Firm (Powerful in market)
Restricted them - license, capacity cannot add, M&A
merger, acquisition

Big business avoided entry from such industries

SSS (Small scale sector)

- 1967 Reservation Policy — many product — SSS
- aim: labor intensive economy ↑
: Redistribute income to - low wage earner

Result

India - World compete X

Big firms cannot do labor intensive industry X

Tough labor laws. — labor intensive industry cant go
in org. sector

- Policy maker → realised : these policies productive X
+ industrialist ↗ growth X

REFORM ERA