



STATUS OF INDIAN ECONOMY:

PRE INDEPENDENCE PERIOD

(1850-1947)

* Between 1st - 12th Century AD.

Pre (Advent of the European) rule of British from 1757-1947.

→ Largest Economy of ancient & medieval world.

→ Controlled world's $\frac{1}{3}$ rd or $\frac{1}{4}$ th of world's wealth.

→ prosperous & self-reliant.

→ Agriculture was dominant occupation.

→ Highly skilled artisans, craftsmen.

* Ancient Economic Philosophy of India:-

ARTHASHASTRA → Kautilya (321-296 BC).

↳ also known

Chanakya.

↓ Curu.

King Chandragupta Maurya.

↓

founder of Mauryan Empire.



ARTHASHASTRA → keya hai.

→ Artha is not wealth alone rather it is material well being of individuals
सुखान् सतिष्ठत्येव सोऽर्थो योऽर्थो न सतिष्ठत्येव सोऽर्थो

→ It means Science of Artha or material prosperity or the means of subsistence of humanity which is wealth & Land.

Focus of Arthashastra:

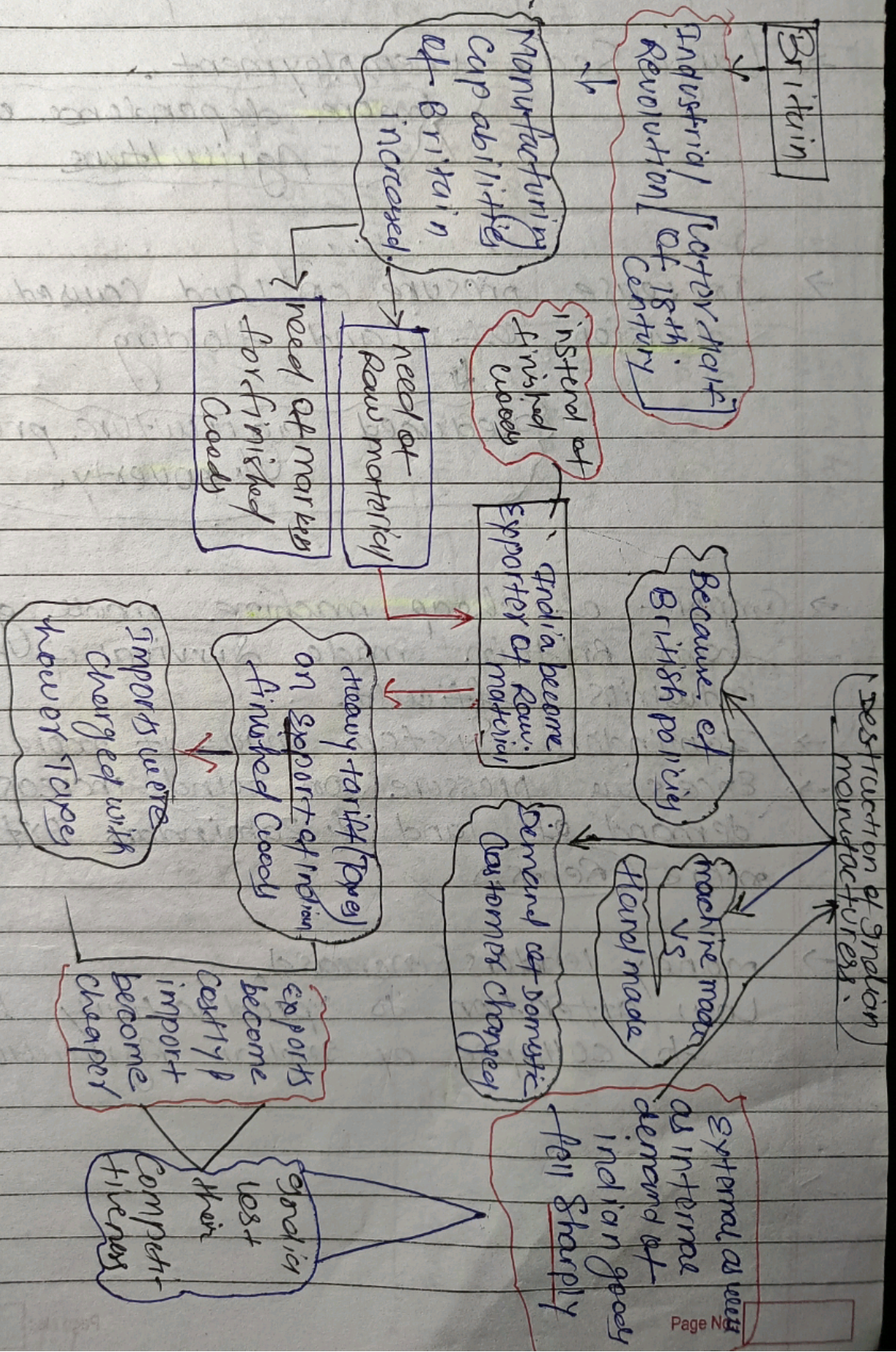
- mean of fruitfully maintaining & using land.
- focus on Robust agriculture initiative
उत्पादक सौ पर्याप्त
- Taxes were charged equally for private & State owned business.
- focus on multidisciplinary areas such as politics, military strategy etc.



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Rules of East India Company from (1757-1858):

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Impact of Destruction of manufactures :-

- Large Scale unemployment.
more dependence on Agriculture
- Increase pressure on land caused Sub division of land holding
↓
Reduced agriculture productivity & poverty.
- Import of cheap machine made goods from Britain made survival of domestic industries difficult.
- Zamindari System made it more difficult.
- Excessive pressure on land increased the demand of land & zamindars extracted more Rents.
- money lenders (increase), low attention to productivity led to collapse of Indian Agriculture.



British Government in India from 1858 - 1947

Before 1850
↓
Factory Based Production did not exist

Mid 19th Century
↓
Modern industrial enterprises in colonial India started to grow

Second half of 19th cent.
↓
Cotton mill industry grew
1850s
1830s → fifth position in terms of Spindle (9 million)

Jute mills also expanded rapidly around Kolkata
↓
At the end of 19th century Indian jute mill industry was largest in the world

Other industries also developed
• Brewing
• paper-milling
• leather-making
• Rice-milling

Heavy industries such as iron industry were established in 1814 by British capital
In 1930 - India's iron ore industry was ranked 4th

Just before Great Depression India was ranked 12th largest industrialized country

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for MCOB ↓

- Indian Industrial Growth was insufficient.
- Share of manufacturing Sector in NDP was 7% in 1946. ↓
} excluding Small Scale & cottage industries.
- Share of factor employment in India was.
→ 0.4% of Total population in 1900
→ 1.4% in 1941.

INDIAN ECONOMY : POST-INDEPENDENCE (1947-1991)

Status of 1951

- Literacy Rate of 18%.
- Life Expectancy 32 yr.
- Severe poverty & Income Human Capital.

→ planning Commission was established and first 5 year plan were made.

Industrial policy Resolution of 1948:- focus

→ to expand the role of public Sector
शहकारी संस्थाओं से काम बड़े उद्योगों
में participate करने लगी
Industry & Sire

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- Licensing the private Sector
- Govt. Monopoly for Strategic Areas.
eg - atomic energy
- arms & ammunition
- Railways

policies in 1950 :- focus कार्य MCO

• Nehru's philosophy :

- Socialistic Society with emphasis on heavy industries. (Rapid industrialization)

• Gandhi's Philosophy :

- Small Scale & cottage industries & village republics.

MCO
#

Industrial policy Resolution of 1956 :-

- ⇒ Supported enormous expansion of scope of public sector
- Undue priority to public sector was affecting private initiative.
- private investment were discouraged & this had long-lasting negative consequences on industrial growth.

[Late 1950's :-]

→ India followed an open foreign investment policy & open Trade policy.
↓
(Because of this.)

→ Balance of payment crisis emerged in 1958. Causing foreign Exchange Depletion

↓
Consequently

→ Gradual ^{strict} ~~(restriction)~~ tightening of Trade & reduction in investment licensing of new investment requiring import of Capital Goods.

[Comprehensive import control were maintained until 1966.]

[First three decades of 1950 - 1980]

→ (Annual Growth of GDP - 3.5%)

↓
Hindu Growth rate.

→ first 15 years
focus was on ↓

→ Capital Goods - Capital, intensive projects - Dams; power plants, - Heavy industrialisation, rather than on Consumer Goods.



Major Shift in Indian Economic Strategy was in Mid 1960s.

- Green Revolution
 - High yielding variety seeds.
 - Intensive use of water.
 - Fertiliser & pesticides.
- 5th 1969 → Govt. nationalised 14 Banks & followed by 6 Banks in 1980.

Agriculture was not given adequate priority during Second plan.

Continuous fall in monsoon + two consecutive drought struck India in 1966 & 1967.

India faced serious food problem.

India had to depend on united States for food aid under PL 480.

Economic performance of India (1965-81) :- A

Reasons for negative Growth.

- worst in independent India's history.
- Licensing Raj - autocratic policies.
- Three wars - 1962, 1965, 1971.
- Major droughts 1966, 1967.
- Oil shocks of 1973 & 1979.
- Closed Economy. (2 & 3 Sector).
- Many Govt. policies aimed at equitable distribution of income & wealth killed the incentive for creating wealth.
- MRTP Act (Monopolies & Restrictive Trade practice) was aimed at regulation of large firms.
- In 1967, policy of reservation of many products for exclusive manufacture by Small Scale Sector was initiated with the objective of promotion of Small Scale industries.
- Aimed at labour intensive Growth.
- This policy excluded Big firms from all labour intensive industries.
- No competitive product in world market.
- Stringent labour laws.

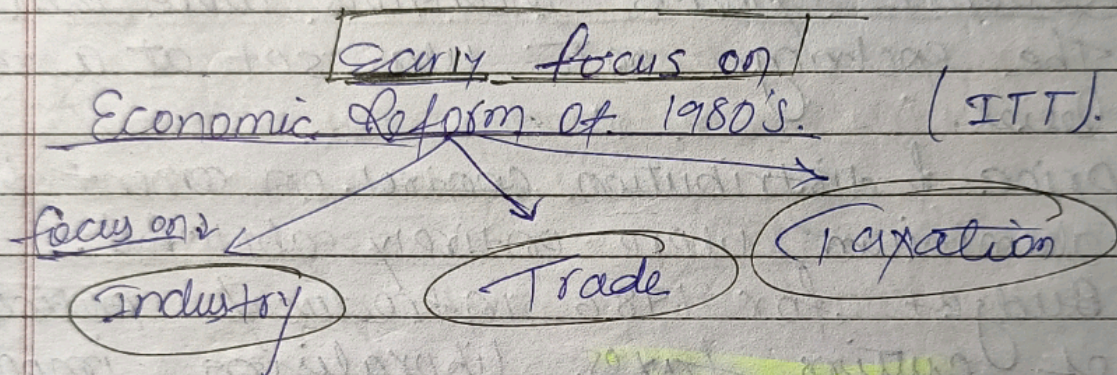
Tough



THE ERA OF REFORMS:-

① Annual Growth Rate
of
GDP. ↓

MCO [Sixth plan \Rightarrow 1980-1985 } 5.7%
Seventh plan \Rightarrow 1985-1990 } 5.8%]



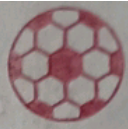
② The prominent industrial policy initiative during this period directed towards removing constraints on growth & creating a more dynamic industrial environment were :-

- a. In 1985, delicensing of 25 ^{Big industries} broad categories of industries were done.
- b. firm in engineering industry were allowed to change their product mix
eg- Car to Truck.
- c. MRTP regulation were raised from 20 cr to 100 cr.

- d. Multipoint excise duties were converted into a modified value added (MOD VAT) tax which significantly reduced the taxation.
- e. Established of SEBI on 12 April 1988.
- f. OGL (Open General List) was steadily expanded the no. of capital goods items included in OGL list expanded to 1329 in April 1990.
- g. Several exports incentives were introduced.
- h. The exchange rate was set at a realistic level.
- i. price & distribution control on cement & aluminium were entirely abolished.
- j. Budget for 1986 introduced policies of cutting taxes, liberalising imports & reducing tariffs.
- k. Based on the real effective exchange rate (REER) the rupee was depreciated by about 30% from 1985 to 1990.

The Economic Reforms of 1991

- Bold economic reforms in 1991 under Narasimha Rao govt.
- Causes attributed to the immediate need of change are :-
 - a) High fiscal deficit. (Expenditure ↑ Income ↓)
 - b) Heavy interest Burden.



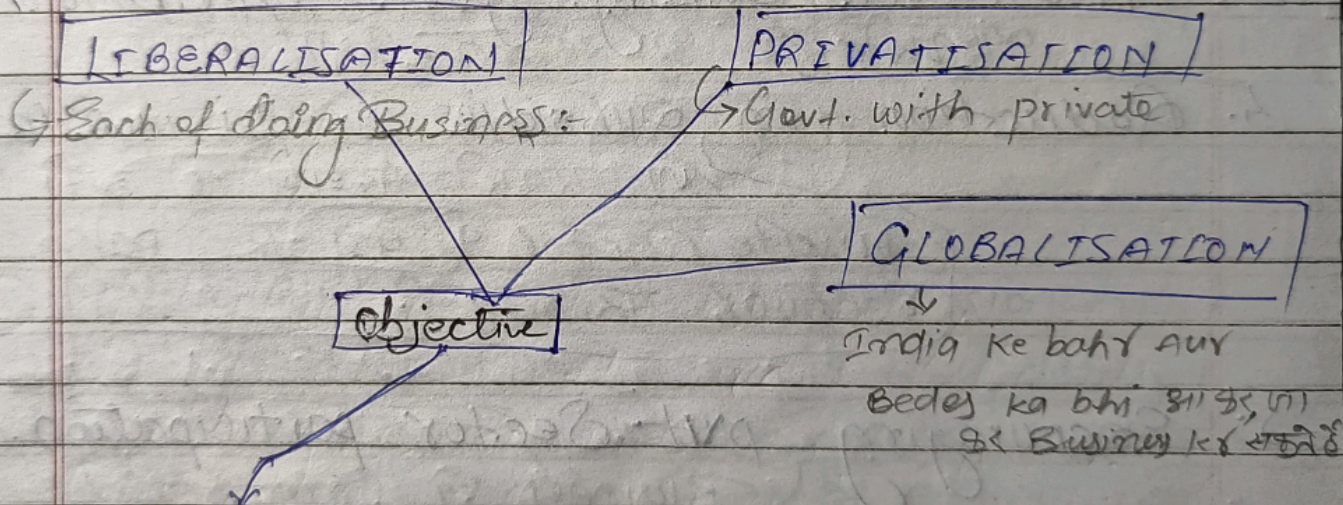
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- c) Gulf war of 1990.
- d) Foreign Reserve touch lowest point ↓
(1.2 Billion (2 weeks of imports))

MCO e) tightening of import restriction to muster force for essential imports resulted in industrial output.

f) Dependence on IMF & crisis confidence govt.

~~Reforms~~ Reforms were known as :- (LPG)



- re-orientation of the economy from highly controlled to market friendly
- macro economic stabilised by reduction in fiscal deficit.

The Fiscal Reforms :-

→ Formula

$$\text{Fiscal Deficit} = \text{Total Budgetary Expenditure} - \text{Revenue receipt} - \text{Capital receipt (Excluding Borrowings)}$$

→ Measure to this Effect :-

1. Introduction of a Stable & transparent tax structure.
2. Ensuring Better tax compliance report lena.
3. Thrust on Curbing govt. expenditure सरकारी खर्च को कम करना.
4. Reduction in Subsidies or Disinvestment.
जो सरकारी संस्थानों को अफ्री
private sector को बेच कर paisa recover कर लेना.
5. Encouraging private sector participation.
Business में join kare

Monetary and Financial Sector Reforms

Reason :-

1. ⇒ Focus was on reducing the burden of Nonperforming Assets (NPAs) on Co-op. banks.

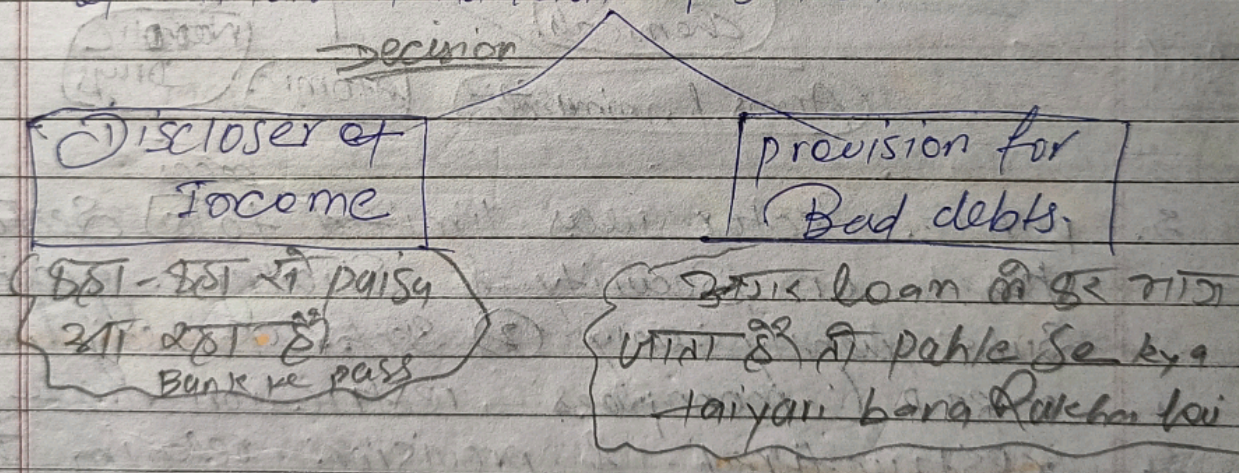
→ Bank ne loan diya aur person nahi jama

2. ⇒ introducing & sustaining competition & deregulating interest rates.



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- 3. Interest rate liberalisation & reduction in controls on banks by RBI in respect of interest rate chargeable on loan & payable on deposits.
- 4. opening of new private sector banks
Eg - HDFC, ICICI etc
- 5. Reduction in SLR, CRR in line with the recommendation of Narsimham Committee ~~1991~~ 1991.
- 6. Liberalisation of Bank branch licensing policy & granting freedom to bank.
- 7. Books of commercial bank should reflect accurate & truthful picture of their financial position.



Reform in Capital markets

All About SEBI :- 😊

→ The Securities and Exchange Board of India (SEBI) which was set up in 1988.

Investor Safety

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Reforms in capital markets :-

↳ All about SEBI.

Statutory recognition in 1992.

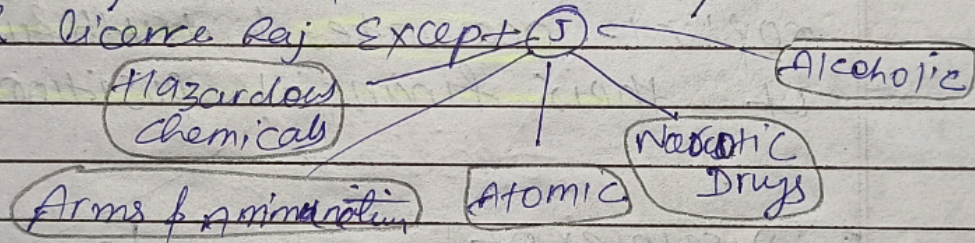
New Industrial Policy :-

^{was} announced by govt. on July 24, 1991.

Aim's

1. → end to licence Raj for all industries except 18

2. consequently 80% of the industry was out of LR licence Raj except (5)



3. public sector was limited to ^{was} 8 Sector based on Security & Strategic grounds.

Subsequently only (2) Sector Railways & Atomic.

4. MRTP (monopolies restriction trade policy) restructured & provision relating to merger, amalgamation & takeover were repealed.

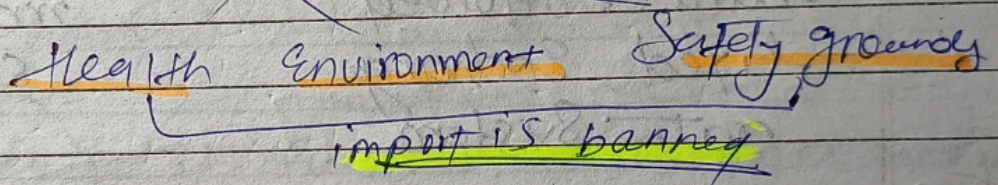
5. many goods produced by Small Scale Industries have been de-reserved enabling entry of large Scale industries.

6. foreign ~~indust~~ investment was also liberalised.

FDI is prohibited in retail trade, atomic energy, lottery & gambling.

7. external trade was further liberalised by substituting positive list approach of listing, license free items on the OCG list with the negative list approach.

8. import licensing was abolished except on fews intermediate & capital goods.



9. In 1990-91 highest tariff was 355%. the top tariff brought down to 185% in 1993-94 & to 50% in 1995-96 & by 2007-08 it has come down to 10%. Except Automobile Sector (100%)

10. Rupee was devalued by 18% against Dollars. Dis investment Budgetary support to public Sector was progressively reduced.

Trade Policy Reforms :-

focus to improve Export

Aimed at

- ①. Dismantling of quantitative restrictions on imports & exports
- ②. Simplification of tariffs.
- ③. removal of licensing procedures for imports.

4. Till 1991

↓

India followed fixed exchange rate system

5. in 1993

India followed managed & floating exchange rate system.

~~Imp~~

changes India witnessed over the last 31 yr at Economic Reforms :-

1. Globalisation & Integrated Economy with world economy.
2. moved towards market economy with Reduction in govt. control. (free economy).
3. Growth of priv. Sector investment & initiatives.
4. High level of international competitiveness in software, telecommunication, pharma ~~pharma~~ etc. (IT Sector boom).
5. Ease in trade controls resulted in easier access to foreign technology.

• person Bahar ka hai, paisa India Companies me kr Sakta hai

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- 6. Stable FDI & Substantial portfolio invest.
- 7. Largest holding of international reserve (close to 8 months of imports)
- 8. Robust demand of IT & financial services resulted in trade surplus 3.7% of GDP.
- 9. pressure on Indian Rupee is lowered compared to emerging economies
- 10. Increased incomes large domestic mkt & high level of AD sustaining the economy.

11. poverty has reduced substantially

12. Reforms led to increased competition in sector like Banking, insurance etc leading to greater customer choice

13. Infrastructure sector achieved growth

14. Agriculture sector immensely grew.

⇒ Negative point

① High fiscal deficit,

②

India's debt is higher than avg. of 64.5% for 2022 (IMF report)

High level of debt as a share of GDP. 94.86% in 2021-22



GDP GROWTH RATES POST 1991 REFORMS

→ "GDP" growth rate is the most reliable indicator of economic growth.

NITI AAYOG: A BOLD STEP FOR TRANSFORMING INDIA :-

NBS

On 1st Jan. 2015, the apex making body namely planning Commission was replaced by the NIT

NIT → National Institution for Transforming India

objective - move to

- ① innovative thinking by objective 'experts' and promote 'co-operative federalism' by enhancing the voice and influence of the States. NITI Aayog is expected to serve as a 'Think Tank' of the government and a 'directional and policy dynamo.