ECONOMIC REFORMS

(A brief Summary)

P.G Semester-II

CC-9, Unit V, Contemporary India

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The pre-independence period was a period of near stagnation for the Indian economy. The growth of aggregate real output during the first half of the twentieth century is estimated at less than 2 percent a year, and per capita output by half a percent a year or less . There was hardly any change in the structure of production or in productivity levels. The growth of modern manufacturing was probably neutralised by the displacement of traditional crafts, and in any case was too small to make a difference to the overall picture. At the time of independence the economy was thus overwhelmingly rural and agricultural in character. Nearly 85 percent of the people lived in villages and derived their livelihoods from agricultural and related pursuits using traditional, low productivity techniques. Fertilisers and other modern inputs which are key to high productivity, were hardly in use and irrigation facilities were available only for about one sixth of the area. Industries employed less than a tenth of the labour force, the great bulk of them in traditional cottage and small scale processing activities. The average availability of food was not only deficient in quantity and quality but, as recurrent famines underscored so painfully so precarious.

Immediately following the transfer of power, the government main concern in economic policy was to control persistent and severe inflationary pressures and to alleviate shortages of essential food items which has been aggravated by the Partition. The Industrial Policy Resolution of 1948 signalled acceptance of the principles that the government will have a major role in initiating and regulating development in one of the key sectors of the economy. The directive principles of state policy incorporated in the Constitution defined the broad objectives of socio-economic policy.

The actual performance of the Indian economy since Independence presents a rather mixed picture. There is a little doubt that the country experienced a much faster pace of growth both in the aggregate and in major sectors during the period than in the previous decades. Aggregate real output during 1970-1 to 1972-3 averaged slightly more than double the level of 1950-1 to 1952-3. The trend growth rate of about 3.6 percent per annum is about two to three times the estimated rate during the first half of the century.

Agriculture- Output of practically all sectors has increased. The net output of agriculture and related activities is estimated to have risen by over 50 percent since 1950. Total crop production, by far the most important component of agriculture, and for which better data are available, has risen by over 80 percent, or at an average annual rate of a little under 3 percent compared to less than a half a percent per annum during the first half of the century. The greater dynamism of agriculture in the post-Independence era is clearly the result of larger, more intensive and better coordinated programmes undertaken as part of the five year plans. While much of the accretions to crop area came from extension of cultivated area through more or less spontaneous efforts of the farmers, increases in cropping intensity made possible by extension of irrigation was also a significant factor. Between 1950-51 and 1971-72 gross irrigated area has increased by 16 million hectares, fertiliser consumption has risen from less than 100,000 tonnes in 1950-51, to nearly 2,2 million tonnes a year in the early seventies. The manifold increase in credit through cooperatives, land development banks and other institutional agencies has helped to reduce the cost of capital to the farms. Better arrangements for distribution of inputs and marketing of produce as well as the introduction of guaranteed minimum support prices since the early 1960s have also been contributing factors.

Industry- The net output of mining and manufacturing industries has been some 160 percent and that of modern industry by over 250 percent. The economy has become more diversified as a result, with the share of agriculture falling from around 50 percent in the early 1950’s to around 45% in the early 1970s. Expansion of the industrial sector was accompanied by changes in the structure of the industry. As a result of developments since 1951, the share of modern factory type industry in the total industrial output has increased. More importantly the composition of factory industry has been greatly diversified. While the textile and agricultural processing industries have expanded, other lines of manufacture have grown even faster. The expansion in metallurgical, chemical and engineering industries has been especially rapid. Many of these industries either did not exist in 1950 or had developed only in a rudimentary way. In general, industries producing intermediate products and capital equipment expanded much faster than consumer goods industries. Thus, the three fold increase in aggregate index of industrial production between 1951 and 1969 was the result of a 70 percent increase in consumer goods industries, a quadrupling of the intermediate goods production and a ten fold increase in the output of capital goods. The emergence of a dynamic indigenous entrepreneurial class and a progressive spread of industries away from their traditional locations are also noteworthy features of the post independence industrial transformation. New centres of industrial development besides the metros have come up.

Economic reforms which began twenty five years ago have transformed India. What used to be a poor slow-growing country now has the third largest gross domestic product (GDP) in the world with regard to purchasing power parity and is projected to be one of the fastest growing economy, in the world. The private sector success has contributed a lot in it. The Green Revolution made India first self-sufficient and then a surplus producer of food. India suffered two consecutive droughts in 2014 and 2015, yet agricultural production actually rose . India became the world's largest rice exporter in 2015, exporting 10.23 million tons. India has also become a substantial exporter of wheat and maize in recent years. That is a measure of its agricultural transformation. In 1991 India's main exports were textiles and cut-and-polished gems. Today, its main exports are computer software, other business services, pharmaceuticals, automobiles, and auto components. Most developing countries grew fast by harnessing cheap labour. India never did so, because its rigid labour laws inhibited labour flexibility, and they still do so today. Software and business services are estimated at $108 billion in 2015-16, up from virtually nothing in 1991. The range of business services has expanded from call centers and clerical work to high-end financial, medical, and legal work. In 1991 Indian companies used obsolete technologies based on ancient licensing agreements and did very little research and development. Today, India has emerged as a global research and development (R&D) hub. General Electric has located one of its five global R&D centres in Bengaluru. Suzuki and Hyundai have made India a hub for small-car research and production. Microsoft and IBM are among the global companies using India as an R&D base. Imports and exports, of both goods and services, have soared as a proportion of GDP because of India's opening up and consequent globalization. The World Bank estimates that in the period 2011-15, India's total trade (imports and exports) as a proportion of GDP was 49 percent, higher than the only two other continental-sized economies: China (42 percent) and the United States (30 percent). India has become a global hub for computer software development. Microsoft, Oracle, SAP, IBM, Accenture, and other top international companies use India as a base. IBM has more employees in India than in the United States, because Indian skills are often as good as — and much cheaper than — those in the West. That fact has led to many complaints that IBM is shifting jobs to India. Many Indian engineers and scientists who used to work for multinationals abroad have returned to work in the companies' Indian subsidiaries and branches. The former brain drain has turned into brain circulation. India is now a low-cost commercial satellite launcher. By October 2015, it had launched 51 satellites for foreign countries, with payloads of less than 1,600 kilograms. To gain market share, it needs to develop payload capacity of over 3,000 kilograms, and building that capacity is a work in progress. In 1991 Indian companies used obsolete technologies based on ancient licensing agreements and did very little research and development. Today, India has emerged as a global research and development (R&D) hub. General Electric has located one of its five global R&D centres in Bengaluru. Suzuki and Hyundai have made India a hub for small-car research and production. Microsoft and IBM are among the global companies using India as an R&D base. Imports and exports, of both goods and services, have soared as a proportion of GDP because of India's opening up and consequent globalization. The World Bank estimates that in the period 2011-15, India's total trade (imports and exports) as a proportion of GDP was 49 percent, higher than the only two other continental-sized economies: China (42 percent) and the United States (30 percent). Many Indian politicians are still instinctively protectionist, yet the data show how much opening up has already happened India has .become a global hub for computer software development. Microsoft, Oracle, SAP, IBM, Accenture, and other top international companies use India as a base. IBM has more employees in India than in the United States

Conclusion- India’s independence was itself a turning point in Indian economy. The second five year plan laid the foundation of economic modernisation to serve India’s long term imperatives. Based on Mahabolonis model it advocated rapid industrialisation with focus on heavy industries and capital goods. Following the success of Green Revolution, there was a White revolution in Gujrat. Self sufficiency in the dairy sector was achieved entirely through cooperative movement. However India went through severe economic crisis in 1991, but decades later after going through many challenges and turbulent times, India is emerging as one of fast growing economy in many sectors. Now a new business model of start-ups have come into foray and our boosting the Indian economy.