

## Chapter - 2.1

# Economic Planning

The thought of economic planning was foremost accepted by Soviet Union in the world. After independence, the Indian national leaders adopted the economic planning as a tool for the development of the nation on democratic pattern.

### Meaning of Economic Planning:

Economic Plannings is a technique in which the central planning officer maintains a conscious awareness of national resources to execute the programmes & policies of the nation for achieving predetermined objectives in a prescribed period.

In other words, the central authority should plane control and direct the economy so that targets & objectives should be achieved in a prescribed period.

In other words the central authority should skillfully plan, control and direct the economy so that the targets and objectives should be achieved in a prescribed period.

According to the planning commission economic planning means to utilize the national resources in various developmental activities according to accepted national priorities.

In India, the model of mixed economy was adopted in which the features of ownership and open activities of market forces were put together.

In this system, the public sector along with private owned properties and democratic system were made powerful.

### Development of Planning in India:

1. First of all, M. Vishveshwaraia made ten years plan in India in the year 1934. He in his book, 'Planned Economy for India,' explained about economic planning that is why he is called father of Indian planning. In 1944 eight industrialist of Bombay prepared a fifteen year Bombay Plan which is also called Tata-Birla Plan. In addition to it revolutionary leader M.N. Rai made Jan-Yojana (1944) and socialist leader Jai Prakash Narain started SARVODAYA YOJANA in the year 1950.
2. Before independence, in the chairmanship of Mr. Jawahar Lal Nehru National Planning Committee was constituted in the year 1938. The committee suggested that over all infrastructural industries there should be control of the state. The committee targeted that in coming 10 years the living standard of the public should go up two times better.
3. After independence in order to take India on the path of development plan, in 1950 Planning Commission was constituted which was given the task of evaluating the

available natural and physical resources in India.

In Indian planning along with five years targets, 20 years long-term targets were also determined. This long-term plan is also called perspective plan.

### **Objectives of Economic Planning:**

Under the economic planning, economic development should be at such a pace that common man can experience its results. In other words, the aim of the planning is to enhance the speed of development. In order to achieve this, Indian planners divided the objectives in two parts:

#### **(a) Long-Term or Common Objectives:**

To achieve these objectives, a period of about 20 years has been decided. These objectives include primarily growth, employment, equality, self reliance and modernization. Let us know these objectives in detail-

##### **1. Growth :**

By growth we mean increase in the capacity to produce goods and services in the country. This means increasing production stock of produced goods and services. For example- to extend machines, tools, banking and transportation etc. In economic vocabulary growth means constant increase in gross domestic product (GDP). Gross Domestic Product means the total monetary value of all finally produced goods and services in a year. Gross Domestic Product is achieved through production in different sectors of an economy. These different sectors include primary sector, secondary sector and tertiary sector. In the economy along with development, Gross Domestic Product reduces the share of primary sector and the share of secondary sector and tertiary sector go on increasing.

##### **2. Full Employment:**

In the economic planning of India full employment is a very important long term

objective. Full employment is the condition in which all those capable people who are ready to work should get work. This is one of the social objectives of five year plans. This means that in the development rich and poor should have equal participation.

##### **3. Equity :**

If only a few people get the benefit of the economic growth then this growth will be meaning less. In such a condition there will be disparity between the rich and poor and this will give rise to state of conflict. That is why in the planning economic equity has been made an important objective. The objectives of growth, self reliance, modernization can be achieved through economic equality.

##### **4. Self Reliance :**

At the time of adopting economic planning, India in spite of being agricultural intensive country, it used to import foodgrains. Because of the negligible infrastructural industries, it used to import transport tools, electric tools, machineries, engineering goods and capital goods. The well developed countries by using their strong bargaining powers, used to take heavy prices from underdeveloped countries. In order to increase the growth and modernization of a country, it is necessary to be self-reliant in the field of foodgrains and machineries as well as it will be required to take minimum aid from foreign countries.

In Indian economy self reliance was adopted as a main objective. Self reliance means to import minimum and gradually to stop completely those things which can be produced in own country.

##### **5. Modernization :**

The main objective of Indian economic planning is to replace the traditional technology with modern technology. The immediate need of modern technology was felt in agriculture and

dairy sector. In order to achieve this emphasis was laid on research and development in the country. In the 6<sup>th</sup> five year plan, the objective of modernization was chiefly indicated and was mentioned also that modernization means multiple infrastructural and institutional changes in the form of economic activity. This will bring change in the structure of production and will also bring variety in production activities and will lead to technological development and institutional change. With all these Indian economy will change from feudal economy to modern and independent economy.

In this way many objectives were determined in economic planning out of which above mentioned objectives were determined as long term because they needed more time to achieve. These objective could not be achieved through any five year plan.

### **Introduction of Five Year Plans:**

#### **First Five Year Plan-**

The period of this plan was from 1951 to 1956. The objective of this plan was to remove the imbalance in economy which resulted out from partition and second world war. The first priority in this plan was to increase agriculture production. To achieve these objectives more emphasis has laid on the extension means of transport and communication as well as on irrigation system. In this plan maximum resources were made available to transport and communication system which was 26.4% of the total plan expenditure.

The first five year plan was successful to a great extent in achieving its objectives. Economy became very strong and stable. There was improvement in the condition of foodgrain production and decrease in price level.

#### **Second Five Year Plan :**

The period of this plan was from 1956 to 1961. In this plan efforts were made to adopt a

system which could lead to a socialist system. In this plan more attention was given to the development of infrastructure and heavy industries. In this plan 20.1 percent of total resources was spent on industry and mining. Among other objectives in plan was to increase employment opportunities at a high speed and to decrease income and property inequality. In this plan more emphasis was laid on the development of iron and steel, non iron metal, coal, cement and heavy chemical and other industries. The strategy that was adopted in this plan made this plan to be called, 'Economic Constitution of India.' The model of this plan was prepared by Prof. P.C. Mahalanobis and it was four sector development model.

#### **Third Five Year Plan:**

The time period of this plan was from 1961 to 1966. The chief strategy of this plan was to build self-reliant and self economy so that the objective of consistent development could be achieved. The immediate objectives of this plan were:

1. To achieve more than five percent growth rate in national income.
2. To achieve self-reliance in foodgrains sector and to increase agriculture production to fulfill the requirements in the field of industry and export.
3. To increase infrastructural industries and
4. To increase employment opportunities and lessen inequality.

In this plan expenditure on agriculture sector was made double in comparison to other plans in order to double agriculture production. In this plan also maximum % of expenditure was made on transport and communication which was 24.6 percent of the total expenditure of the plan. The reason for maximum expenditure in this head was infrastructure development so that sustenance could be given to agriculture and industry sector.

### **Three Annual Plans :**

During third annual plan India had to face China war in the year 1962 and Pakistan war in the year 1965. Not only that, in the last years of three annual plan, because of draught and money devaluation, the fourth annual plan could not be started on time. Because of the above mentioned reasons, we had to make one year plans which is called plan holiday in the history of Economic Planning which was for 1966-96.

### **Fourth Five Year Plan :**

The time period of this plan was determined from 1969 to 1974. Due to lack of resources, this plan could not be executed in time. The working strategy of this plan was to achieve stability alone with development and self-reliance. In order to achieve this, following objectives were to be determined.

- (1) Stability in price.
- (2) Self reliance and lesser dependence on foreign countries.
- (3) Availability of jobs to lower strata of society.
- (4) Extension in industrial sector
- (5) Development of infrastructural setup.
- (6) To encourage the equality and social justice activities in this plan also. Maximum expenditure was done on transport and communication facilities. Recognizing the need of energy, energy sector was given the second place.

### **Fifth Five Year Plan:**

The time period of this plan was determined from 1974 to 1979. The main objective of this plan was to achieve self-reliance and eradication of poverty. To achieve this it was determined to elevate the living standard of the weaker section of the society. In 1975, under 20 point programme, Indira Gandhi gave the slogan, 'Gareebi Hatao'. In this plan maximum

expenditure was determined on industrial sector and was given the first priority. In this plan, priority was also given to achieve control over inflation and economic stability. One of its objectives was also to achieve 5.5 percent annual growth rate. The fifth five year plan could complete only four annual plans. After that it was decided that the fifth plan should be closed with the completion of the annual place of 1978-79.

### **One Year Plan :**

In 1977, Janata Party Government came into power and it started one year rolling plan. In this plan, three plans were made for every year. One for the current year, second of intermediate nature and the third long term plan. But the Janta Party Government could not complete its full term and the new government closed this plan in 1980.

### **Sixth Five Year Plan:**

The time period of this plan was from 1980 to 1985. The main objective of this plan was the eradication of poverty. The main strategy of this plan was to make powerful the basis structure of both agriculture and industry. The emphasis was laid on better arrangement, better efficiency and intensive vigilance in every sector so that the interrelated problems could be solved in systematic way. Along with this, emphasis was laid on the active participation of the public in the making of special schemes at local level and execution of these schemes in effective way. In this plan 28.1 percent of total expenditure was aspect on energy sector. Another important sector was transport and communication. In this plan average growth rate was determined as 5.2%.

### **Seventh Five Year Plan :**

The time period of this plan was from 1985 to 1990. The chief strategy of this plan was to increase jobs, production and fertility. In this plan the emphasis was laid on policies and programmes. The objectives of these policies and



plans were to increase foodgrain production, employment opportunities, modernization and self-reliance under the basic principles of social justice. During this plan foodgrains production increased by 3.23 percent which was greater than earlier years. The reason of this was good weather, execution of different determined programmes and the joint efforts of govt. and farmers. To eradicate unemployment and poverty, Jawahar Rojgar Yojana had also been started along with other already started programmes. In this plan also maximum expenditure that was 30.5% kept for energy sector.

### **Annual Plans :**

Due to changing political conditions in the centre 8<sup>th</sup> five year plan could not be started on time. Newly formed govt. in center decided that the 8<sup>th</sup> five year plan will be started from 1<sup>st</sup> April 1992 and for the year 1990-91 and 1991-92 different annual plans would be started. Keeping in view, be 8<sup>th</sup> five year plan, the main emphasis was laid on employment opportunities and social causes in these annual plans.

### **Eighth Five Year Plan :**

The period of this plan was from 1992 to 1997. The main objective of this plan was to make available job opportunity. This plan was started first after the commencement of long term policies. The need of these policies was felt due to the deteriorating conditions of balance of payment and inflation. In eighth five year plan, the alternation was paid to these policy based reforms. Maximum resource were made available to energy sector which was 26.6 percent of total outlay and the growth rate at aimed was 5.6 percent but the achievement was 6.5 percent. In the eight five year plan, more emphasis was laid on human development and to achieve this, priority was given to employment creation, population control, literacy, education, health, drinkable water and food supply in sufficient quantity.

### **Ninth Five Year Plan :**

The period of this plan was from 1997 to 2002. The main working strategy of this was economic growth along with social justice. The objective of this plan was to achieve 6.5 percent growth rate of gross domestic production every year. In this plan emphasis was laid on seven basic services. For these services provision was made to get aid from the centre so that benefits of services could be given to masses in time. The following objectives were determined in these services.

1. Pure drinkable water
2. Availability of first aid
3. Houses for the destitute
4. Nutritive food for children
5. Road for all villages and locality
6. Primary education for all
7. Improvement in public distribution system.

### **Tenth Five Year Plan :**

The time period of this plan was from 2002 to 2007. The main working strategy of this plan was to increase the quality of life. In this plan growth rate was aimed at 8 percent. In order to achieve this, it was determined to double per capital income in ten years. In this plan a few specific targets were also determined like.

- i. To decrease ratio of poverty from 26 percent to 21 percent by the year 2007.
- ii. To make available profitable jobs for increasing manpower.
- iii. To decrease by 50 percent gender inequality in literacy and labour.
- iv. Literacy rate 75 percent by the year 2007.
- v. To decrease infant mortality rate from 72 to 45 percent by 2007.

- vi. To decrease maternal mortality rate from 4 percent in 1999-2000 to 2 percent in 2007.
- vii. To make available drinkable water in all villages.

### **Eleventh Five Year Plan :**

The period of this plan was from 2007 to 2012. The working strategy of this plan was rapid and all encompassing development. During the plan 8 percent development rate was targeted which was to bring to 10 percent towards the completion of this plan. To achieve this 27 main objectives were determined which were distributed in six sections (i) poverty (ii) education (iii) health (iv) women and children (v) basic infrastructure and (vi) environment.

In this plan new priorities were determined for public sector. These priorities were primarily concerned to give new life to agriculture sector and build basic infrastructure in rural area, also to facilitate rural people with health and educational facilities and improve the living conditions of the weaker sections of society and to achieve these,

various programmes were started. In this plan more faith was expressed in Panchayati Raj institutions. In the 11<sup>th</sup> plan out of total outlay maximum expenditure (32.6%) was done on social services

### **Achievement of Five Year Plan :**

In the history of 62 years of economic planning, we beggged achievements in a few sectors. At the same time we had to face failures and other new problems emerged. During economic planning, our achievements can be explained on the basis of following points:

#### **1. Growth in National Income :**

During the plan economic growth rate accelerated as per targets as shown in the table.

Plan	Target	Actual
First plan	2.1	4.2

Second plan	4.5	4.2
Third Plan	5.6	2.6
Fourth Plan	5.7	3.2
Fifth Plan	4.4	4.9
Sixth Plan	5.2	5.4
Seventh Plan	5.0	5.5
Eight Plan	5.6	6.7
Ninth Plan	6.5	5.5
Tenth Plan	8.0	7.5
Eleventh Plan	9.0	7.8

From the above table this is clear that during these five year plans the average growth rate remains from about 3.5% to 5% to which Prof. Rajkrishna gave the name 'Hindu Growth Rate' which remained stable according to the old traditions of Hindu religion. After sixth five year plan, growth rate increased which was good indication of development but it again decreased in the ninth five year plan. In the eleventh five year plan we achieved maximum growth rate which was 7.8 percent.

#### **2. Development in Agriculture Sector-**

During the sixty two years of five year plans, 20 percent of the total outlay was spent on agriculture and irrigation. In 1950 the production of food grains which was 40 crore ton increased to 26 crore 48 lakh ton in 2013-14. In this way food grains production increased five times. On the 11<sup>th</sup> five year plan the target was 4 percent growth rate in agriculture sector but actual achievement has 3.3 percent. During five year plans, there was improvement in almost all sectors like agriculture irrigation sector, use of minerals, use of good hybrid seeds, modernization in agriculture, etc.

#### **3. Growth in Industries:**

During economic planning, a huge amount of total outlay was spent on industries. During

the period of planning, industrial growth rate was better than towards the end. During the five year plans, the production of iron and steel, aluminum, engineering goods, minerals and petroleum increased.

#### **4. Balance of Payment:**

During the plans, more finance was needed for developmental policies therefore deficit budget had started. This deficit went on increasing which was compensated through devaluation of currency which laid adverse effect on balance of payment. Business in India had poor in those years except 1972-73 and 1976-77. During these five year plans foreign exchange reserves increased which came to 351.62 billion dollar in December 2015.

5. During planning, life expectancy which was 32 years in 1951 increased to 65 years in 2001.
6. In addition to all these, during planning period, basic infrastructure increased and an elaborate educational system developed in India and also the saving and investment growth rate increased.

### **Short comings of Planning:**

#### **1. Failure in Eradication of Poverty :**

During planning the socialist developments main strategy was to make available minimum living standard for the masses. In order to achieve this various programmes were started, for example in the fifth five year plan 'Eradicate Poverty' programme was started and the slogan 'Eradicate Poverty' was given. But till today, one fourth population is below poverty line. Various economists have evaluated this. According to NSSO's 61<sup>st</sup> round in 1999-2000, 26.1 percent population was below poverty line. According to Suresh D. Tendulkar's committee report in the year 2004-05, 37.2 percent population was below poverty line. In this way poverty is still a very big problem.

#### **2. Slow Growth Rate of Employment :**

During planning unemployment grew with development, though many programmes were run to eradicate unemployment but all programmes proved to be failures. Therefore skill development programmes and self employment programme run by the government could have been meaningful in this direction.

#### **3. Increment in Income and Wealth Inequality:**

In order to remove anomalies in income various efforts were made during planning but various studies found out that during planning such people became richest and economic power became centralized in a specific section of society. 10 percent of the population in the country enjoy 90 percent resources while 90 percent population has only 10 percent resources. This gulf of inequality is increasing consistently.

#### **4. Insufficiency of Industrial Development:**

The basis of economic progress of any country is industrial development. In the second five year plan, most improvement was given to the development of primary industries but gradually the percentage of total outlay on industries sent on decreasing with the result that the development of industries got obstructed. Moreover, the country still lacks raw material, technology, machinery and basic infrastructure which are necessary for the development of industries. During planning the domain of black economy also got extending in 2008, it was evaluated 640.7 billion dollar which was fifty percent of gross domestic produce of that year.

In the end we can say that during planning the country had to face lots of problems and therefore desirable objectives could not be achieved. But at the same time during this period there was notable growth in gross domestic product per capita income, living standard, literacy rate, etc.

## **Twelfth Five Year Plan:**

The time period of this plan is 1 April, 2012 to 31 March 2017. The strategy of this plan is faster, sustainable and more inclusive growth. In the 12<sup>th</sup> plan it has been accepted that the main objective of development is the comprehensive change in the economic and social condition of the masses. To achieve the faster, sustainable and more inclusive growth, the following 15 main points were determined which are as follows.

1. To achieve the growth rate of 8% in gross domestic product.
2. To achieve 4.0% percent growth rate in agriculture sector.
3. To achieve 10.0 percent growth rate in reconstruction sector.
4. By the end of 12<sup>th</sup> five year plan, to reduce by 10 percent per capita consumption poverty.
5. To determine average growth rate for every state which should be more than 11<sup>th</sup> five year plan.
6. To create five crore new job opportunities in non-agriculture sector.
7. To increase average school education to seven years by the end of the plan.
8. To reduce infant mortality rate and maternal mortality rate.
9. To improve child sex ratio to 950.
10. To bring to the ratio of 2:1 the total fertility rate by the end of the plan.
11. Investment in primary infrastructure to bring it to 9 percent of gross domestic produce.
12. To bring total irrigated area from 90 million hectare to 103 million hectare by the end of the plan.
13. During plan, to increase growth of green area by 1 million hectare per year.

14. Bank services to 90 percent families by the end of the plan.
15. In the 12<sup>th</sup> five year plan 32.6 percent of total outlay was allocated to social services. Agriculture sector was kept on second priority. Adopting the concept of inclusion, emphasis had laid on equality in all fields in this plan. Attention was also given to climate changes due to environmental pollution and greenhouse gases.

## **Planning Commission :**

After independence the need for a local body was felt which could take the responsibility related to planning like the availability of resources, execution and evaluation. For this planning commission was established on 15 March, 1950 in the form of both constitutional and non-constitutional body. This is an advisory body which gives advice to Indian govt. on various issues and its ex-officio chairman is the prime minister. In addition to chairman, there is the vice chairman and a member secretary in this commission. The number of members can be increased.

## **National Development Council (NDC) :**

This is a non-constitutional body which acts as a connecting chain between planning commission and different states. Constituted in the chairmanship of K.C. Niyogi, planning advisory council recommended the constitution of an organization in which there could be representation of welfare of different states and princely states. In the draft of first five year plan, it was mentioned that in the federal structure where states enjoy autonomy, there is the need of an organization which could give opportunity to the prime minister and chief ministers for evaluation the plan.

The govt. constituted National Development Council on 6<sup>th</sup> August, 1952 whose ex-officio chairman is the prime minister and the secretary of the planning commission is also the secretary of

development council. National Development Council does the following works:

1. To decide the guiding principle for the determination of the national plan and its means.
2. To deliberate on the national plan prepared by the planning commission and give it final shape.
3. To deliberate on the important questions related to social and economic policy which affect national development.
4. Re-inspection of the execution of plans from time to time.

### **National Institution for Transforming India(NITI):**

According to changing global economic environment the need to provide greater autonomy to the states was felt so the states can also build development plans as per their policies. The centre govt. took the step in this regard by

replacing Planning Commission with NITI. It was constituted on 1 January 2015. NITI is the think-tank which takes policy related decisions and makes the states equal participants in the making of policies and giving decision.

Government before coming into power called for from planning to NITI on its agenda because in India there have been political, social, economic and technical changes on large scale in the past 65 years. India is a variegated economy and its different states have different development stages which have their own strengths and weaknesses. In this context single perspective economic planning has no meaning. That is why planning commission has been replaced by NITI.

The ex-officio chairman of NITI is the prime minister. There is one vice chairman and all members are for the full time. Full time members include chief ministers of the states and

deputy governors of federal area and members of regional council.

We can explain the works to be done by NITI through following points-

1. To establish an administrative system in which the role of the govt. is that of an Enabler.
2. NITI will work on the principle of co-operation and competitor complete federalism.
3. NITI will solve different challenges through coordination between the center and the states and coordination among different ministries.
4. To ascertain the important and effective participation of India in global conferences.
5. Maximum exploitation of entrepreneurs capacity and developing the intellectual skills of the country.
6. To eradicate gender equality, inequality on the caste bases and economic inequality.
7. To give advice to centre and states in the designing of policies and programmes.
8. To keep vigilance and also to evaluate govt. regulated policies and programmes.
9. To provide every citizen of India opportunities to live a respectable life and also eradicate poverty.

In this way NITI lays emphasis on cooperative federalism. This will play the role of think tank which will be capable of giving unbiased advice to government.

### **Conclusion:**

After independence, inspired by Soviet Union, economic planning was adopted in India. Under this, it was decided to achieve pre-determined objectives in time bound period on the basis of the resources. In India, during



economic planning, long term and short term objectives were determined which were tried to achieve through five year plans.

Through these plans growth was registered in agriculture, industrial and service sectors, though we faced a few failures like poverty, unemployment, inequality.

### Important Points :

1. By economic planning, we mean the way in which central planning officer keeping in view the resources of the country calculate economic programmes and policies to achieve predetermined objectives in time bound period.
2. Under economic planning growth, full employment, equality, self-reliance and modernization were determined as long term objectives.
3. First five year plan was started in India on 1 April, 1951.
4. In the first five year plan, agriculture sector, in the second five year plan industrial sector and in the third poverty eradication were adopted as main working strategies.
5. During 1966-69, there were one year annual plans made which were called plan holiday.
6. For the year 1978-1983, Janta Party Govt. started Rolling Plan.
7. In the ninth five year plan emphasis was laid on seven basic minimum services.
8. 12<sup>th</sup> five year plan which was from 2012-17 had its main working strategy faster, sustainable and more inclusive growth.
9. To prepare five year plans was constituted planning commission in 1950 which was replaced by NITI on 1 January 2015.
10. NITI works on the principle of cooperative federalism.

## Questions for Exercise

### Objective Type Questions :

1. Chairperson of National Planning Committee was-  
 (a) Sir, M. Vishvaishvareya  
 (b) Deendayal Upadhyay  
 (c) Jawahar Lal Nehru  
 (d) Firoz Shah Mehta ( )
2. The year in which Planning Commission was organized is –  
 (a) 1950  
 (b) 1949  
 (c) 1951  
 (d) 1952 ( )
3. Period of planning holiday was-  
 (a) 1965-68  
 (b) 1966-69  
 (c) 1967-70  
 (d) 1964-67
4. Chairperson of NITI Aayog is –  
 (a) President  
 (b) Prime Minister  
 (c) Finance Minister  
 (d) Commerce Minister ( )
5. Period of 8<sup>th</sup> Five Year Plan was-  
 (a) 1990-95  
 (b) 1991-96  
 (c) 1992-97  
 (d) 1993-98 ( )
6. Wrong matching is –  

Plan	Year
(a) Jan Yojana	1944

- (b) Sarvodaya Yojana      1950
- (c) Bombay Plan            1945
- (d) Planning Committee   1938

### **Very Short Answer Questions:**

1. Who is called the father of Indian Planning ?
2. Who is the author of the book “Planned Economy of India”?
3. What is meaning of growth ?
4. What is perspective plan?
5. On which model the 2<sup>nd</sup> five year plan was based?
6. In which plan the slogan of poverty removal was given ?
7. What was the title sentence of 11<sup>th</sup> five year plan?
8. What is complete name of NITI Aayog?
9. Who was the first deputy chairperson of NITI Aayog ?
10. Write the long term objectives of Indian planning.
11. In which plan the state-wise objective of growth were decided?

### **Short Answer Questions**

1. What is meaning of economic planning?
2. Explain the historical aspect of Indian planning ?
3. Discuss 11<sup>th</sup> Five Year Plan in brief.
4. Which basic minimum needs were emphasized in 9<sup>th</sup> Five Year Plan ?
5. What do you mean by ‘plan holiday’ ?
6. What is ‘rolling plan’ ?
7. What is mixed economy ?
8. Explain the functions of National Development Council.

9. Why was the NITI Aayog established in place of Planning Commission ?

### **Essay Type Questions**

1. Describe the 12<sup>th</sup> five year plan.
2. Explain the NITI Aayog in detail.
3. Explain the long term objectives of economic planning.
4. Introduce the five year plans launched before 1990.
5. Describe the achievements and failures of economic planning.

### **Answer to Objective Type Questions:**

- (1) c (2) a (3) b (4) b (5) c (6) c

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## Chapter - 2.2

# Agricultural Development

India has been agriculture dominant country since ancient period. India exported agricultural products. Indian agricultural products were famous all over the world due to the quality like spices, jute, cloth, etc. about 85% population earned living from agriculture before independence.

Indian agricultural prosperity attracted traders and business persons of western countries. Different countries came over to India for trade but most of them could not succeed. Britishers succeeded in their colonial policy and ruled over India for more than 200 years. As for as agriculture sector is concerned, it became backward due to defective and selfishness oriented British policies. Indian farmers as well as agriculture were exploited and thus agriculture became a source of earning living only.

### Importance of Agriculture in Indian Economy:

Even after the organized efforts for industrial development after independence in India agriculture is still main source of living for 65% population. Role of agriculture in Indian economy can be explained as below:

#### 1. Importance of Agriculture in National Income:

According to Central Statistical Organization, in 1950-51, share of agriculture in gross domestic product was 56.6% in 1950-51

which decreased upto 15.2% during 11<sup>th</sup> five plan. This decreasing share of agriculture in national income is a symbol of economic growth. This share of agriculture is 2-3% in U.S.A., 7% in France, and 7% in Australia.

#### 2. Contribution of Agriculture in Employment :

About 65% working population of India is still found in agriculture directly or indirectly. Due to employment opportunities in fisheries, animal husbandry, poultry, etc. and thus a large share of population depends on these agriculture related activities for living.

Dependence of population on agriculture for living is more but here average income is less than that in non-agriculture sector.

#### 3. Importance of Agriculture in Industrial Development:

In India, industries of tea, cotton cloth, jute, sugar, etc. get raw material from agriculture. Handicraft weaving, soap making, food item and many such activities indirectly depend on agriculture. Presently, food processing industry is growing rapidly which is completely based on agriculture.

#### 4. Importance of Agriculture in Foreign Trade :

India exports many agricultural products like tea, tobacco, dry fruits, spices, oil seeds, etc.

which brings foreign exchange and thus increases foreign exchange reserves.

## **5. Importance of Agriculture in Economic Planning:**

Agriculture is the main base of Indian transport system because most of the agriculture products are transported by railway and road. If crops are good, income of farmers increases and thus demand for industrial products increases which results into progress of industries.

It is clear from above analysis that the prosperity of Indian economy depends on agriculture growth. Agriculture is main source of employment in rural sector of India.

### **Land Reform:**

During colonial rule Indian farmers were exploited and agriculture became backward sector of the economy. The land systems of zamindari, raiyatwari and mahalwari were responsible for the poverty of farmers and backwardness of agriculture in India.

After independence many efforts were made to improve the position of both farmers and agriculture. These efforts are known as land reforms under which following steps were taken.

1. Abolition of intermediaries.
2. Tenancy reforms
3. Consolidation of holding
4. Reorganization of Agriculture

Detailed analysis of these steps is as given below:

### **1. Abolition of Intermediaries:**

Before independence Indian economy was stagnant because agriculture was stagnant and main reason of this was the zamindars who were agents of the British government. After independence abolition of zamindars was thought to be necessary. Some states enacted laws before first five year plan but took action during first five year plan. In states where land records and

administrative machinery were available, permanent settlement was not difficult but in states where land records were not available it was difficult to take any action like Bihar, Orissa, West Bengal, Rajasthan etc. In these states zamadari, raiyatwari and mahalwari systems were abolished. As result tenants and government came with direct relationship.

### **2. Tenancy Reforms:**

Under this step tenancy reforms were followed. Tenancy system is the system in which landowners do not do agriculture themselves but lease out land to tenants. Under this system following reforms were done.

#### **(i) Regulation of Rent:**

In British period there was heavy burden of rent on tenants. The rent was 30% to 80% of the total production. After independence it was recommended that maximum rent should not be more than 1/5 or 1/4 of the total production.

#### **(ii) Security of Tenancy Rights:**

Many laws were enacted to stop eviction of tenants from land. These laws aimed to stop eviction of tenants, to return land to owner only for self cultivation and to leave some land with tenant on returning land to owner.

#### **(iii) Ownership Right to Tenant:**

Under this reform the farmers who cultivated land were given ownership right of land and thus farmers became owner of land. States of West Bengal , Karnataka and Kerala were more progressive in this regard.

### **3. Consolidation of Holdings:**

Under this reform maximum size of holding was fixed and thus that maximum quantity of land was fixed beyond which no individual or family could hold land. Size of holding was very small before independence. In India marginal land holdings are found more on which crop production is less than cost of cultivation.

Due to right of private property, inheritance law, heavy pressure of population, division of joint family system and role of Mahajan and moneylenders etc. land was divided into small pieces and thus problem of fragmentation and sub-division of land holding was created. For the solution of this problem the way of consolidation of holding was adopted. Consolidation of land holding means making land available at one place instead of the scattered small pieces of land at different places. Table-1 shows the definition and availability of land holding in India in 2010-11.

**Table -1**

**Types and % of Total Holdings**

Holding	Definition	% of Total Holdings (2010-11)
Marginal Holding	Less than 1 hectare	67.0
Small Holding	1 to 2 hectare	17.9
Semi-medium Holding	2 to 4 hectare	10.1
Medium Holding	4 to 10 hectare	4.3
Large Holding	More than 10 hectare	0.8

#### 4. Reorganization of Agriculture:

Under this reform system of consolidation was adopted for the solution of the problem of fragmentation and subdivision of land holding and thus land was made available at one place instead of scattered pieces of land here and there.

Under land reforms partial success was achieved through the implementation of various laws. Due to shortcomings of laws zamindars declared themselves owner of land or challenged the laws of land reforms in court and got lease deed to the self name or name of relatives. These

laws were not implemented equally in whole of the country.

#### Agricultural Productivity:

Development of agriculture is necessary for the development of Indian economy. For this agriculture should be given the first priority because motivations of growth of industries are less in developing countries. So, there is need to make efforts for increasing production and productivity of agriculture.

Agriculture productivity is the per hectare production. Table -2 shows the production and productivity trends of different crops in India.

**Table – 2**

Crop	1950-51		2015-16	
	Production	Productivity	Production	Productivity
Rice	206	668	1043	2404
Wheat	64	665	935	3093
Jowar	55	353	44	925
Millet	26	288	81	1164
Pulses	84	441	165	652
Food Grains	508	552	2522	2056
Oil Seeds	62	481	254	868
Cotton	30	88	301	432
Jute	33	1043	99	2399

**Source :** Sixth Five Year Plan, GOI, Economic Survey: 2016-17, Vol. II, GOI, Economic Survey : 1980-81

**Note :**

- (1) Production in 'lakh tonnes'. Production of cotton and Jute in 'lakh bales'. Cotton: 1 bale = 170 kg. Jute: 1 bale = 180 Kg.
- (2) Productivity in kg per hectare.

Table shows that both production and productivity of the referred crops have increased



in the period 1950-51 to 2015-16. Production of rice was 206 lakh tones in 1950-51 which increased upto 1043 lakh tones in 2015-16. In the same period production of wheat increased from 64 lakh tones to 935 lakh tones i.e. about 15 times. Total food grains production increased about 5 times i.e. from 508 lakh tones to 2522 lakh tones.

In non-food items production of oil seeds increased by 5 times and that of cotton by 12 times in the period from 1950-51 to 2015-16. Productivities of all food grains was 552 kg which increased upto 2056 kg. in the period of 1950-51 to 2015-16. This increase was due to new agriculture strategy adopted in the decade of 1970s. In this period productivity of wheat was 665 kg. which increased 3093 kg. and that of rice was 668 kg which increased upto 2404 kg. In the same way productivity of cotton which was 88 kg. in 1950-51 increased upto 432 kg. Productivity of pulses increased on an average by 1%. Thus in the period of these 64 years productivity of food grains, oil seeds, rice, and cotton increased by 4 times, 3 times, 4 times and 2 ½ times respectively. Tendency of productivity of all crops showed unevenness.

### **Causes of Low Productivity:**

Following causes are responsible for low productivity of crops in India.

1. There is very high pressure of population on agriculture. This pressure is continuously increasing due to lack of sufficient opportunities of employment in non-agriculture sector.
2. Agriculture productivity is low because rural atmosphere in India is suffering from stress, fatalism, superstitious ways and ignorance.
3. In India, size of land holding is small and thus cost of production is higher with lower productivity levels. 85% holdings are marginal.

4. Indian farmer have not been benefitted much by laws of land-ownership system. We see zamindars, mahajans, etc. even today.
5. Farmers use old and backward agricultural technique even today.
6. Even after 67 years of independence 53% land still depends on rainfall. Thus there is lack of irrigation facilities in our country.
7. Crop value in India is not inspirational and due to this farmers are not ready to increase the production.

Government should make necessary efforts to increase productivity in agriculture. For this, implementation of land reforms, use of agriculture inputs in proper quantity, availability of credit and marketing facilities, proper price-policy for crops, etc. steps are required. In 12<sup>th</sup> five year plan it was experienced that due to scarcity of cultivated land it is necessary to emphasize the productivity in agriculture in future. Keeping this objective in view the National Food Security Mission (NFSM) was implemented in 11<sup>th</sup> five year plan.

### **Agriculture Inputs:**

Agriculture production and productivity depends on agricultural inputs. Developing and backward countries lack these inputs for agriculture development. Agricultural production and productivity can be increased by correct management and using in proper quantity of the agriculture inputs. Agricultural inputs include irrigation, fertilizers, high yield variety seeds and pesticides.

#### **1. Fertilizers :**

Use of fertilizers is necessary for rapid growth in agriculture production. Land in India has diversity and is appropriate for production of crops in different areas. Soil in India lacks nitrogen and phosphorus elements. If carbonic manure is used with these elements, crop

production increases rapidly. So use of fertilizers should be increased to increase the production of food grains. Use of fertilizers has been increased after green revolution. We produce nitrogen (N) and phosphorus (P) in India but we import potash (K) completely.

## **2. Irrigation:**

Indian agriculture depends on monsoon. Irrigation is the most important input which affects agricultural production. If crops get sufficient water at the right time, productivity can be increased.

### **(a) Small Irrigation Project:**

Irrigation projects having agriculture command area less than 2000 hectare are included in small irrigation projects.

### **(b) Medium Irrigation Project:**

If agriculture command area is between 2000-10000 hectare these projects are the medium irrigation projects.

### **(c) Big Irrigation Project:**

Irrigation projects having agriculture command area above 10000 hectare are the big irrigation projects.

## **Modes of Irrigation:**

Ponds, tube-wells, wells, canals, johad, etc. are the different modes of irrigation in India being used since ancient time. Modes of irrigation are divided in mainly three parts as discussed below:

### **(a) Irrigation by Canals:**

In 2010-2011, 24.6% part of net irrigated land area was irrigated by canals. Canals are used for irrigation mainly in Punjab, Haryana, Uttar-Pradesh, Bihar and some states of southern India. Main canals of India are Sharda canal, Upper Ganga canal, Lower Ganga canal, Sarhind canal, Indira Gandhi Canal, and canals of Kaveri, Krishna and Godavari rivers.

### **(b) Irrigation by Ponds:**

Ponds are used for irrigation in Tamilnadu, Andhra Pradesh, Kerala, Karnataka, etc. share of ponds in net irrigated area was 31% in 2010-11.

### **(c) Irrigation by Wells:**

Wells include both surface wells and tubewells. Wells are used for irrigation mainly in Uttar Pradesh, Gujarat, Maharashtra, Madhya Pradesh and Haryana. Contribution of wells in net irrigated area was 61.4% in 2010-11. Thus wells and tube wells had maximum contribution in net irrigated area.

## **3. High Yielding Varieties of Seeds (HYVS):**

These seeds were used intensively during green revolution. Government of India was trying for improvement in high yield variety seeds since planning period but success was got in kharif crop in 1966 when these seeds were adopted. This programme was adopted as 'Package Programme'. HYVS of wheat were imported from Mexico. This programme was implemented for rice, millet, jawar, maize, etc. except wheat.

Success of HYVS was reported in the crop of wheat while other crops reported very lower success. Pulses, oilseeds, fruits, vegetables were the items for which nothing was done regarding HYVS.

## **4. Pesticides and Insecticides:**

In India, about 10-15% crops are destroyed due to lack of plant protection. So there is need of safety of crops from diseases and insects. In India, maximum pesticides and insecticides are used in cotton and paddy crops. After green revolution the use of pesticides and insecticides has increased rapidly.

## **5. Farm Mechanisation :**

In India, agriculture is done with the help of traditional means (plough, bullock, horse, pond, etc.) which result into less production and lower productivity. Agriculture production and

productivity can be increased with the help of new techniques and machines. Mechanisation means using modern methods in place of traditional methods of agriculture. Due to lack of capital complete mechanization would have not been possible in agriculture in India and thus only partial mechanization could have been adopted.

Agriculture production can be increased by using agricultural inputs in proper quantity and systematic way. This will create income for farmers and will increase industrial development indirectly. Except these inputs farm-machinery, agricultural credit and proper arrangement of electricity can also be used to increase the agricultural production.

### **Green Revolution :**

In initial years of 1960s new technique and HYVS were used in agriculture and as result crop productivity increased rapidly. This was called 'green revolution'. In 1958 total production of wheat increased in India firstly by 50 lakh tone (from 120 lakh tone to 170 lakh tone) and this phenomenon was called 'Green Revolution' by American scientist, William God. But green revolution in India, in real sense, started in 1966 (kharif crop) when the then Prime Minister Smt. Indira Gandhi and agriculture minister Shri C. Subrahmanyam talked to adopt the new strategy.



Maxican agriculture scientist and researcher, Norman E. Borlaug, discovered improved variety seeds of wheat which could increase productivity by 200 to 250 times. These seeds were used first of all in Mexico and Taiwan. In India, in Kharif crop of 1966 the improved variety of rice 'Tychung Netiv' and in rabi crop of 1966 the improved variety of wheat

'Larma', 'Roza 64-A' and 'Sonara-64' were used. Agriculture scientist Dr. M.S. Swaminathan improved maxican wheat variety and this new wheat varieties were named as 'Sharbati Sona' and 'Pusa Larma'. Thus, Dr. M.S. Swaminathan is called the father of green revolution in India and in reference of the world Norman E. Borlaug (who got noble prize in 1970) as father of green revolution. This new strategy is also known as 'Seed-fertilizer Revloution'.

Green revolution strategy in Inida is divided in two stages:

### **First Stage:**

This stage is concerned with the period of mid 1960s to mid 1990s and is known as the 'stage of centralization'. This stage was mainly concerned with wheat and rice crops and limited upto states of Punjab, Haryana and Western Uttar Pradesh. In this stage productivity of wheat increased rapidly and thus known as the centralized stage on wheat crop.

### **Second Stage:**

At this stage, group of five crops was included. These five crops were we wheat, rice, millet, jawar and maize. This stage was implemented in other parts of country also. So, this stage is known as 'stage of decentralization'.

In this stage, main emphasis was given to increase the production of rice, pulses, cereals and edible oil. Here emphasis was also given to increasing the dry farming, reducing regional disparities, balancing ecology, maintaining fertility of soil, increasing the use of organic fertilizers and using techniques of water management.

### **Impact of Green Revolution :**

#### **1. Increase in Total Production and Productivity of Crops:**

Green revolution resulted into rapid growth of foodgrains. Production of wheat was 1 crore tones in 1965-66 which increased upto 9 crore 59

lakh tones in 2013-14. In this period, productivity of wheat increased from 851Kg. to 3075 Kg. Due to this many experts called it 'wheat Revolution'. Total foodgrains production was 810 lakh tones at the end of 3<sup>rd</sup> five year plan which increased upto 264.8 million tones in 2013-14. Both production and productivity of pulses remained negative in first stage of revolution. C.H. Hanumant Rao claimed that there were imbalances in growth of various crops in initial years of the green revolution but these imbalances were reduced with the time.

## **2. Use of Fertilizers Increased Rapidly:**

In 1952-53, use of fertilizers was of only 66000 tones which increased to 239.6 lakh tones in 2013-14.

3. Irrigation facilities expanded rapidly. Irrigation potential was 2.26 crore hectare in 1950-51 which approached to 11.32 crore hectare in 2011-12.
4. Use of machines and equipments were widely promoted and due to this Indian agriculture was changed from traditional form to modern form.
5. Use of pesticides, insecticides and HYVS increased widely.

## **Failures or Problems of Green Revolution:**

1. The maximum effect of green revolution was on wheat. In case of rice, green revolution was seemed to be less effective. But in case of cereals (maize, jawar and millet) pulses and oilseeds green revolution was ineffective.
2. Green revolution was failed in production of commercial crops.
3. Under food security production of pulses did not increases and thus share of pulses in foodgrains decreased.
4. Impact of green revolution was limited to some areas and thus the process of

imbalanced growth in agriculture started.

5. Benefit of green revolution went only to educated and prosperous farmers. Green revolution was not beneficial for marginal and small farmers.
6. Green revolution created effects on ecology. Soil pollution, fall in soil fertility, lack of biodiversity, decreasing underground water level, problem of water lodging, soil erosion, increase in soil salinity, etc. are the ecological effects.
7. Only big farmers took the benefit of agricultural concessions given by government.
8. Due to blind fold use of chemical fertilizers concept of sustainable agriculture suffered.

As result of green revolution India became self-reliant in production of food grains and thus our imports decreased. Green revolution was limited upto some areas and big farmers. So, we can say that green revolution did not have more effects on Indian economy. Thus, we think that there should be one more green revolution in India.

## **Agriculture Finance :**

One of reasons of backwardness of Indian agriculture is the lack of financial facilities. Finance facilities are easily available for organized sectors like industry and business but agriculture is an unorganized sector and thus there is lack of finance facilities for it. Farmers need finance for purchasing seeds, equipments, marketing, animal husbandry, etc. Availability of agricultural finance at proper interest rate and in sufficient quantity plays important role in increasing agricultural production and productivity. Agriculture finance is divided in below given parts:

### **1. On the Basis of Period:**

Here, finance is of three types:

- (a) Short Run Loan
  - (b) Mid Term Loan
  - (c) Long Term Loan
2. On the Basis of objective
- (a) Productive Loan
  - (b) Unproductive Loan

These different types of loans have been discussed as below:

### **Short Term Loan:**

This loan is taken by farmer to purchase fertilizer, seed, manure and other commodities of domestic use. These loans are given for period of less than 15 months and by cooperative societies, mahajans and money lenders.

### **Mid Term Loan:**

This loan is taken for making improvements on land, to purchase agricultural equipments, bullock, etc. Period of these loans is from 15 months to 5 years.

### **Long Term Loan:**

Period of these loans is more than 5 years and taken for leveling the land, to dug walls, to purchase new land, to repay old loans, to purchase heavy machinery and to develop small irrigation system.

### **Productive Loan:**

Loans which are used by farmers for productive works are the productive loans. With the help of this loan fertilizer, seed, agriculture equipment, bullock, etc. are purchased, permanent improvements are done on land and wells are dugged.

### **Unproductive Loan:**

Loans which are taken for unproductive activities like marriage, death ceremony, other social customs, etc. are the unproductive loans.

### **Sources of Agricultural Finance:**

Agricultural finance plays important role in

development of agriculture. Sources of agricultural finance are divided as below:

#### **1. Non-Institutional Sources:**

These are:

- (a) Mahajan and Money Lender
- (b) Relatives
- (c) Zamidar
- (d) Broker and Trader

#### **2. Institutional Sources :**

These are:

- (a) Cooperative societies
- (b) Land development bank
- (c) Regional rural bank
- (d) Commercial bank
- (e) NABARD

These sources are analysed as below:

#### **1. Non-Institutional Sources:**

Mahajan, money lender, relative, zamidar, etc. are the non-institutional sources of agricultural finance. These are known as 'local bankers.' Taking loan from these sources is easy and simple. At the time of independence 71.6% contribution was of mahajans and moneylenders in agriculture finance. In case of non-institutional sources, there were many ways of exploitation like higher interest rates, non-maintenance of loan accounts, changing details in accounts, taking thumb impressing on blank paper, etc. If farmers did not repay loan, they had to work as servant for the moneylender and zamidars. Sometimes farmers were evicted from land also.

After independence government made many efforts to make farmers free from these unhealthy practices of moneylenders. There were laws to restrict the moneylenders and zamidars for these malpractices like keeping accounts made compulsory, proper maintenance of accounts,



giving receipt to farmer on payment of loan, etc.

Some states made provisions of punishments for disobedience of laws by mahajans and money lenders. Some of the restrictions imposed by different states on money lenders and mahajans are as given below:

1. Restricting compound interest.
2. Money lenders can charge only those amounts, except loan amount, which are mentioned clearly in laws.
3. Restriction on false claims under principal amount.
4. Restriction on payment related provisions on other states.

## **2. Institutional Sources:**

After independence the need of institutional finance was recognized and thus efforts were started in this direction. As result of these efforts the share of non-institutional sources in agriculture finance was 92.7% in 1951 which decreased to 40% in 2013. In this period, the contribution of institutional finance increased upto 60%. Contribution of non-institutional finance is more still today. R.B.I. organized a committee 'Advisory Committee on Flow of Credit to Agriculture and Related Activities from the Banking System' under the chairmanship of Prof. V.S. Vyas. This committee submitted its report in 2004 with 99 suggestions of which 32 suggestion had been accepted by R.B.I.

Institutional credit includes following sources:

### **(a) Cooperative Credit Institutes:**

These institutes were started in 1904 with slow progress before independence and with rapid growth after independence. Share of these institutes in total institutional credit was 30% in 2013-14. Cooperative credit institutes fulfill specially short term credit needs. These institutes have three tier system. These are :

### **(i) Primary Credit Societies:**

These are organized at village level. At least 10 persons of an area or village can organize primary credit society. These societies give loan for productive activities.

### **(ii) Central Cooperative Bank:**

These banks are organized at district level with the main work of giving loans to primary credit societies. These banks work as intermediary between state corporative bank and primary credit societies. Central cooperative banks extend loan for 1 to 3 years.

### **(iii) State Cooperative Bank:**

Organised at state level, these banks give long term loan to District Cooperative Banks. State Cooperative Banks control activities of district cooperative banks also. This bank is financed by R.B.I.

### **(b) Land Development Bank:**

These banks were established in India in 1929 and now are known as agriculture and rural development bank. Some states have single organizational system and some other states have double organizational system of land development Banks. Under this system primary agriculture development bank at village level and state agriculture and rural development bank at state level were established.

### **(c) Regional Rural Banks (RRBs):**

RRBs were started in those areas in which the system of institutional finance is not sufficient and there are many possibilities of agriculture development. RRBs provide loan to small and marginal farmers, agriculture laboureres, artisans, etc. RRBs were started on October 2, 1975 with 5 such banks. After some years their number increased upto 56. In 2013-14, contribution of RRBs in total institutional credit was 11.6%. 90% of the total loans of RRBs were given to weaker sections of rural areas.

#### **(d) Commercial Bank:**

At the time of independence, share of commercial banks in agriculture credit was very low. It was only 0.9% in 1950-51. 14 main commercial banks were nationalized in July, 1969 for increasing their contribution in agriculture credit. In 1980, 6 more banks were nationalized. With this these banks were given instructions to extend 40% credit to priority sectors (agriculture, small industries, small business, etc.). Share of commercial banks in agricultural institutional credit was 26%.

#### **National Bank for Agriculture and Rural Development (NABARD):**

NABARD was established in July, 1982 as per the recombination of CRAFTICARD committee with B. Shivraman as president. NABARD is the apex institute of rural credit (agriculture credit). Agriculture Refinance Commission was established in 1963 which changed into Agriculture Refinance and Development Corporation (ARDC) in 1975. All the activities of ARDC and Agriculture Credit Department of RBI were handed over to NABARD. Primary paid up capital of NABARD was 100 crore.

#### **Functions of NABARD:**

Following are the functions of NABARD:

1. It is the apex institution of rural credit.
2. NABARD gives short term, midterm and long term loans to cooperative societies, cooperative banks, land development banks and RRBs.
3. NABARD is responsible for coordination, integration and control of all activities related with agriculture and rural area.
4. NABARD keeps its eyes on activities of cooperative sector through its agriculture credit department.

5. NABARD extends short term loan to cooperative banks for reasonable agriculture activities, distribution and purchasing of fertilizers, selling of agriculture production and working capital of cooperative sugar factories.
6. NABARD gives mid term loan to state cooperative banks and RRBs for agriculture purpose (leveling of land, purchasing of agriculture equipments, etc.) and extending loan period in areas affected from natural calamities.
7. NABARD gives longterm loan to state cooperative banks, RRBs and commercial banks for large scale improvements in agriculture sector.
8. NABARD gives long term loans to state governments to contribute in cooperative credit institutions.
9. NABARD has fund for research and development purpose which helps in formation of projects according to different areas and to promote agriculture and rural development programmes.

#### **Agricultural Development without Pollution/Second Green Revolution :**

Using pollution free resources and ecology favourable techniques in agriculture development is the second green revolution. According to Mr. M.S. Swaminathan, Dr. A.P.J. Abdul Kalam and P.S. Pitroda following processes should be adopted for this revolution :

- (i) Using bio-fertilizers in place of chemical fertilizers.
- (ii) Using bio-insecticides and pesticides in place of chemical insecticides and pesticides.
- (iii) Adopting proper and balanced pattern of crops and water conservation.

Ex President Dr. A.P.J. Abdul Kalam emphasized second green revolution to increase the supply of foodgrains for solution of crisis of foodgrains for increasing population and this revolution should include all the elements of 'from field to market'.

A conference entitled 'Knowledge Agriculture' was held in December, 2006 in New Delhi for the second green revolution. In this conference it was concluded that this revolution is capable to fight with the challenges of World Trade Organization and sustained agriculture development. Following efforts were made under this revolution:

1. This revolution was implemented for all agricultural products (food grains, animal products, commercial crops, fisheries, silk farming product, etc.) to increase agriculture production. So, this revolution is known as 'Rainbow Revolution'. In this revolution crop management, use of bio-inputs, etc. were emphasized.
2. For value addition processing of agriculture products and developing them as drinking industries were emphasized.
3. Strengthening infrastructure in agriculture was emphasized, improving agriculture finance system, agriculture products, improving transport system for marketing of agriculture products, developing mandies (markets), arranging communication facilities, arranging sufficient irrigation in agriculture, etc. steps have been undertaken.
4. All the crops and agricultural activities have been included in National Agriculture Insurance Yojana for providing security of crops to farmers.

More emphasis was given to second green revolution in 11<sup>th</sup> five year plan so that targeted growth rate of agriculture can be obtained (which was 4%). Growth rate really achieved in 11<sup>th</sup> plan was 3.3%. If pollution free policies of agriculture

development will be implemented properly, the targeted growth rate of agriculture in 12<sup>th</sup> plan (which is 4%) will be possible to achieve.

### Important Points:-

- Indian economy is agriculture based economy. It is source of living of 65% population.
- Agriculture contributes in national income employment, export, industrial growth, etc. land reforms were adopted for agriculture development through abolition of intermediaries, tenancy reforms, consolidation of holding and reorganization of agriculture, etc. measures.
- Per hectare production is agriculture productivity. Agriculture inputs were mainly used during green revolution. Improved seeds, chemical fertilizers, irrigation system, etc. are the agriculture inputs.

## Questions for Exercise

### Objective Type Questions :

1. Main food crop of India is-  
(a) Rice (b) Wheat  
(c) Jawar (d) Maize ( )
2. National Food Security Mission was implemented in the five year plan-  
(a) 8<sup>th</sup> five year plan  
(b) 10<sup>th</sup> five year plan  
(c) 11<sup>th</sup> five year plan  
(d) 12<sup>th</sup> five year plan ( )
3. Green Revolution in India was adopted in-  
(a) Rabi Crop 1965  
(b) Rabi Crop 1966  
(c) Kharib Crop 1966  
(d) Kharib Crop 1965 ( )

4. Which one is not the commercial crop-
  - (a) Jute
  - (b) Collon
  - (c) Sugarcane
  - (d) Rice ( )
5. NABARD was established in the year-
  - (a) July 1988
  - (b) July 1982
  - (c) July 1984
  - (d) July 1986
6. State using maximum fertilizers per hectare is –
  - (a) Haryana
  - (b) Punjab
  - (c) Uttar Pradesh
  - (d) Madhya Pradesh ( )
7. Which one is not the non-institutional source of agricultural finance ?
  - (a) Mahajan
  - (b) Relatives
  - (c) Money lender
  - (d) Cooperative societies ( )
8. Regional Rural Banks were started in the year.
  - (a) October 2, 1975
  - (b) October 2, 1976
  - (c) October 2, 1977
  - (d) October 2, 1978 ( )
3. What is idle ratio of nitrogen (N), Phosphorus (P) and Potash (K) ?
4. What is irrigated and unirrigated area in India ?
5. In which states of India ponds are used for irrigation ?
6. Who is father of 'green revolution' in India ?
7. What is 'Local Banker'?
8. Write complete name of NABARD.
9. What is rainbow revolution ?
10. What was the main theme of conference organised in November, 2006 for second green revolution ?

#### Short Answer Questions :

1. Explain the three tier cooperative system of agricultural financé.
2. Give brief description of NABARD.
3. Explain reforms undertaken under land reforms.
4. Write brief note on agricultural productivity .
5. On what basis and in how many parts irrigation projects are divided?
6. Explain the causes of low productivity of agriculture.
7. Explain the classification of agricultural credit system on the basis of period.
8. Write a note on pollution free agriculture development.

#### Essay Type Questions:

#### Very Short Answer Question:

1. What percentage of population in India depends on agriculture ?
2. What was per hectare productivity of foodgrains in 2013-14 ?
1. Write an essay on importance of agriculture in Indian economy.
2. What is meaning of green revolution ? Evaluate the green revolution.

3. What are agricultural inputs. ? Describe main agricultural inputs.
4. Describe sources of agricultre finance.
5. Explain the role of NABARD in rural credit system.

**Answer to Objective Type Questions:**

- (1) a (2) c (3) c (4) d (5) b (6) b (7) d  
 (2) (8) a

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## Chapter - 2.3

# Industrial Development

### Role of Industrial Sector in Indian Economy:

Economists accepted that increasing share of industrial sector in national production is an indication for a developing economy to step up towards well developed economy. In other words, to increase industrial sector is an indication towards development. Indian economy is an agricultural dominant economy. Industrial backwardness and slowdown have been inherited in the economy. India has been remained only raw material exporter since British ruling time. They had established negligible industries in India to fulfill their self-centered interest. These industries were not capable to provide sufficient infrastructure for the development. Indian textile industry, jute industry, sugar industry, coloured utensils industry etc. were well known in the world for their excellence before coming of Britishers.

Industrial development is known as a base for any economy. Other sectors are inspired from industrial development so that overall development of the economy is possible. The importance of industries is more and more in Indian agricultural dominating economy because we can go ahead on the path of development along with industrial development. We can understand the role of industrial sector in Indian economy through the following points.

#### 1. **Rapid Growth in Income :** According

to economists, rapid growth will be in gross domestic product due to fast industrialization. Per capital income of the citizens will be increased along with industrial development. The productivity of industries remains more than the productivity of agriculture sector. Industries are basically the results of man made efforts but due to dependence of agriculture on the nature, the situation of agriculture is not exist like that. The level of development can be achieved through industrialization. The share of industries has been increased in national income along with industrialization in the country and per capita income of the people has also been increased. The share of industrial sector in gross domestic product of the country has been increased upto 26.2% in 2013-14 from 16.6% in 1950-51.

#### 2. **Role in Employment:**

Industrial sector has an important role in employment generation. Employment opportunities will be increased alongwith industrial development. Industrial sector of India is a large employer of the organized sector. The employment has been increased due to establishment of industries in different areas of the country. Agriculture sector can not solve the problem of unemployment due to rapid growth of population so in this context the role of industries will remain more to solve the problem of

unemployment.

### **3. Development of Infrastructure:**

Industrial development is not possible without infrastructure facilities. At the time of independence Indian infrastructure was underdeveloped. Government developed infrastructure facilities rapidly which helped in rapid development of industries. For rapid industrialization rapid development of infrastructure was necessary.

### **4. Utilization of Resources:**

Industries have more capacity to utilize resources instead of agriculture sector. Inefficient resources are trained by industrial units which increases their productivity. Industries also use raw material produced by industries.



### **5. Development of Agriculture:**

Industrial development develops the agriculture equipments and machines, medicines, chemical fertilizers etc. which increase agriculture production. Thus, agriculture development depends on industrial development to a large extent.

### **6. Balanced Growth:**

Development in India was of the imbalanced nature. Development of India was mainly based on agriculture. By developing industries the dependence of development on agriculture can be reduced. Industrialisation is the back bone of any economy and gives energy to it.

### **7. Self Sustained Growth:**

Rapid industrialization increases self sustainability. Industries promote agriculture, transport and communication. Role of industries is very large in producing consumer goods and making available there goods to every sector of economy.

### **8. National Security:**

Development of industries make available the national security equipments (weapon, etc.) and other machinery and thus we save foreign currency because of reduction in imports. This increases our self confidence and economic freedom.

As result of industrialization India has become self sustainable in growth. Role of industrialization in development becomes more important.

### **Problems of Industrial Development:**

At the time of independence Indian industries were in the backward position. After independence we tried to develop industries through many industrial policies and thus industries started developing in India. Now, India has both ability and capacity of producing high quality and technical goods but Indian industrial sector still faces some problems. These problems are as discussed below:

#### **1. Gaps between Fixed Targets and Achievements:**

Fixed targets regarding industrial development in India could not be fulfilled under planning period. Industrial targets were fulfilled only in the decade of 1980. Before liberalization industrial growth rate was less than targeted growth rate by 20% each year on the average basis. In this reference Rakesh Mohan says that in the period of 35 to 40 years industrial growth rate remained about 6.2% while it was targeted as 8%.

## **2. Underutilization of Capacity of Industries:**

During plans industries could not utilize their full capacity. There were many reasons responsible for it e.g. government policies, labour dissatisfaction, lack of raw material, lack of electricity supply, etc.

## **3. Performance of Public Sector:**

After independence industries in public sector developed rapidly but many economists raised many questions on their performance. Public sector industries were established for social equality rather than earning profit. These industries could not fulfill the objective of social equality and thus failed in their performance.

## **4. Industrial Sickness:**

If industrial units are unable to complete their financial liabilities, this situation is known as industrial sickness. It was mentioned in the 6<sup>th</sup> five year plan that "structure of industrial development was not determined by the cost criterion. No proper attention was given to cost at the time of establishment of industries due to their protection from foreign competition. Improvement in techniques and variety of goods were also not considered seriously. Due to these reasons some industries became unhealthy.

## **5. Infrastructural Constraints:**

This is the main problem of industrialization. Lack of modern technology and increase in cost of energy and transport increase the cost of production. About 55% is the contribution of coal in the supply of energy in India and this supply is less than its demand. Rail transport could not be developed more, there is lack of proper roads and these roads have heavy burden of transportation, there was less development of inter-state express ways and four-lane highways, and other many causes were responsible for the insufficient development of infrastructural facilities.

## **6. Emerging Problems of Industrial Development:**

As a result of economic reforms since 1991 Indian industries are facing competition from foreign industries and if our industries are failed in this competition they will be closed down. It has become difficult for specially the small industries to compete with foreign industries. Final consumer goods industry is completely under danger because these final consumption goods are exported by foreign countries as these goods are cheaper and qualitative. It has been mentioned in 12<sup>th</sup> five year plan document that Indian capital goods industries have been badly affected in the competition with Chinese industries. Presently our electronics industry is facing strong competition with China.

It is clear from the above discussions that Indian industries are facing many problems and due to this their development has been blocked. If we want to develop our industries there is need to develop the infrastructure facilities and the power of competition.

## **Efforts being made to motivate Industrial Development:**

Presently following efforts are being made by our government to give incentive for the industrial development:

### **1. Ease in Doing Business:**

The place of India is very low in the index of ease in doing business. Thus, all the indicators of this index have to be improved. These indicators include starting business, action regarding taking permit, registration of property, supply of electricity, payment of taxes, implementation of tenders etc. Positive and accelerated efforts are being made in this direction.

### **2. Make in India:**

This programme aims to increase

investment, to motivate innovation, to promote skill development, to protect intellectual property and to build better infrastructure. Information about 25 sectors has been provided on the web portal. This portal has the information about F.D.I. policy, national manufacturing policy, industrial estate rights, Delhi, Mumbai industrial corridor, etc. A director facility center has been established in 'Invest India' for giving guidance, assistance and help to investors.

### **3. E-Biz Project :**

Under this project 'Government to Business-G2B' portal is being established which will work of 'One Stop Shop' for giving services to investors. This portal will complete all the necessities, from beginning to end, during the whole life cycle of the business. Whole of the process is available on-line and now this service is available all the time on the E-Biz website.

### **4. Skill Development:**

To promote skill and entrepreneurial activities a new ministry of 'skill development and entrepreneurship' has been established and now the work of criteria fixation for skill development training is being done. Now 31 Sector Skill Councils (S.S.C.) are being run in the leadership of employee/industry and these 31 S.S.Cs have been integrated with 25 sectors of 'make in India'. National commercial of vocational Training, school boards and University Grants Commission are equally making efforts for skill training.

### **5. Making Effective the Environment and Forest Related Sanctions:**

Process of on-line applications of environment, Coastal Regulation Zone (C.R.Z.) and forest related sanctions have been started. In this regard, the decision taking process has been decentralized. To ensure industrial/educational development condition of taking environment related sanction has been relaxed to construct

industrial sheds where there are plants, machinery, educational institutions and hostels.

### **6. Labour Sector Reform:**

A labour facility portal has been started to enable on-line registration of units, self attestation by units, submitting simplified single online return, starting of transparent labour inspection plan through computerized system according to risk based criteria and uploading inspection reports within 72 hours and thus complaints can be settled with time. A universal account number has been started for provident fund of workers or servants. Trainees Act, 1961 has been modified to make it more flexible and attractive for youths and industries.

### **New Industrial Policy:**

New Industrial policy was adopted in 1991. Before the study of this industrial policy, previous industrial policies have to be studied first so that the new industrial policy can be compared.

### **Industrial Policy 1948:**

The first industrial policy of the independent India was declared on April 6, 1948 by the then central industry minister Shyama Prasad Mukharjee. This policy divided industries in to 4 categories-

- (a) These were the industries under the government control. These were- defence, atomic power and Railways.
- (b) There were 6 industries in the mixed category. These were- coal, iron and steel, aeroplane manufacturing, water ships manufacturing, telephone and telegraph, and mineral oil.
- (c) In this category there were 18 industries to be established by industrialists under the control and regulation of government. These industries were-heavy chemical, sugar, cotton and woolen cloth, paper, cement, etc.

- (d) Rest of the industries were to be establishment by private sector.

### **Industrial Policy 1956:**

This policy was designed by keeping in view the socialistic objective of Indian constitution. This policy is also known as the 'Economic Constitution of India or 'Megnakarta of Industrial Policy' because this policy of 1956 gives a base for all the future industrial policies. Under this policy all the industries were divided into three parts:-

- (a) These industries were to run under the monopoly sector of government and put under schedule-A Industrial Policy Proposal. There were total 17 industries as logistics, atomic energy, railways, air transport, etc.
- (b) Industries in the co-existence of both public and private sectors (mentioned in schedule-B) were in this category. These were 12 industries as- chemical, fertilizers, road transport, etc.
- (c) All of the rest industries were left for private sector to get them established and developed. Government will not take direct part in these industries.

### **Other Industrial Policies Declared Before 1991**

In industrial licensing policy of 1970, a list was issued for main industries. This policy issued the reservation policy for small industries.

In industrial policy, 1977 decentralization of industries was emphasized and for this District Industry Centers were established. This policy defines small and cottage industries firstly. The new concept of very small industry (tiny industries) was introduced.

In industrial policy, 1980, establishment of rural industries was emphasized. It was experienced that public sector should be implemented effectively to reduce the regional disparities.

### **New Industries Policy 1991:**

This policy was a big change in Indian industrial structure and industrial policies adopted so far to strengthen the industrial base. There was need of this policy due to many reasons as described below:

- (i) Due to growth in non-development expenditure fiscal deficit was increasing and became 8.4% of gross domestic product in 1990-91. In 1990-91, interest payment increased 36.4% of total public expenditure.
- (ii) Deficit in balance of payment was increasing and burden of foreign debt became 23% in 1990-91 from 12% in 1980-81.
- (iii) Main reason of this policy was the Gulf crisis in which crude oil prices increased in world market and thus inflation rate in India increased upto 17%.
- (iv) In 1990-91, we looked at doors of world Bank and International Monetary Fund due to our economic crisis which resulted into constrained debt agreement. Due to this agreement we left away our 50 years old policies of License, Permit and Quota and adopted new policies of liberalisation, privatization and globalisation.

Thus to establish coordination between these national and international schemes, India declared New Industrial policy with following proposals.

#### **(a) Abolition of Industrial Licensing:**

Under this policy licences of all industries were abolished except 18 industries. Presently only 5 industries take licence which is mandatory. These are- air, sky and defence related electronics; gun powder and industrial explosives; dangerous chemicals; tobacco, cigarettes and other restricted products; and Alcoholic drinks.

#### **(b) Public Sector's Role Diluted:**

Number of industries in public sector



reduced to 5 under this new policy which was 17 in industrial policy of 1956. Presently, only 3 industries (atomic energy, minerals listed in 1995 list, and railways) under the control and ownership of government.

### **(c) Monopolies Restrictive Trade Practices (MRTP)**

Under MRTP Act, permission of government was to be taken to establish, merge and expand the industrial units. This provision was modified in 1969 and abolished in 2002 and MRTPs were controlled. MRTP act was also abolished and Competition Act was enacted according to which now there is no requirement for taking permission from the government for establishment, expansion, merging, amalgamation and undertaking.

### **(d) Incentives of Foreign Investment:**

In previous policies foreign investment was discouraged. Under New Industrial Policy, there was no need of taking government permission for upto 51% foreign investment in case of high investment requirement industries. Limit of foreign investment increased from 51% to 74% and further to 100% industries in the service sector. These were the industries of more export possibilities. Presently, foreign direct investment is prohibited in some areas like retail trade, atomic energy, lottery business, gambling and speculation.

### **(e) Foreign Technology Promotion:**

Foreign technology was promoted for rapid growth of industries.

### **(f) Independent Small Industrial Policy:**

To strengthen small industries independent small industrial policy was declared on August 6, 1991.

### **Successes of New Industrial Policy :**

1. After this policy industrial growth rate increased. This growth rate was 7.8% in

1980-90 and became 13% in 1995-96 and 5.2% in 2016-17.

2. Due to this policy foreign capital investment increased. Both F.D.I. (Foreign institutional investment) and F.I.I. (Foreign Institutional Investment) increased. According to UNCTAD Report (2010) on investment, this investment in India was 34.6 billion dollar in 2009.
3. Foreign technology was promoted and thus Indian industrialists were recognized in world markets. Imports of foreign technology increased productivity of industries.
4. There was increasing trend in the foreign exchange resources. As a result of this industrial policy, Indian foreign exchange reserves increased so much that IMF (International Monetary Fund) included India in the list of debtor countries.
5. Public sector industries got the competitive atmosphere which improved their performance.
6. Rate of return increased as result of the industrial policy of 1999.

### **Failures of New Industrial Policy:**

Many economists criticized this industrial policy. These criticisms are:

1. This industrial policy did not get success in reducing the unemployment significantly. Both rate and quantity of unemployment increased.
2. Many industries became sick or closed down. These industries could not mobilise resources to adopt foreign technology.
3. Indian industries could not compete with foreign industries and thus many industries became out of the competition.
4. Dependence of Indian industries on foreign technology increased which was named as

‘economic colonialism’.

5. Some sectors remained untouched by the foreign investment. Only profit earning industries got it. Infrastructure did not develop as per expectation.
6. Small and cottage industries could not compete with foreign industries and thus private sector was opened for the items reserved for these industries. Many of the small and cottage industries had been closed down.
7. Monopolistic tendencies were promoted in the economy which was not a healthy sign.

Under new industrial policy many reformative macro stabilizing efforts were made. Indian industries could demonstrate their capacity globally. But Indian small and cottage industries faced downfall and dependence on foreign capital. This policy increased unemployment in the economy.

### **Role and Problems of Cottage and Small Scale Industries in India:**

Small industries were defined on the basis of investment limit first of all in Industrial Policy proposal, 1977. Thus those industries were the small industries in which investment in plants and machines was less than Rs. 10 lakh. Investment limit for ancillary units was Rs. 15 lakh and that for tiny units was maximum of Rs. 1 lakh. Under redefinition of investment limit in 1991, Rs. 60 lakh, Rs. 75 and Rs. 25 lakh were the investment limit for small industries, ancillary units and tiny units respectively. In 2006, Micro, Small and Medium Enterprises Development (MSME) Act was passed and these investment limits were again redefined. Under this Act manufacturing and service sector enterprises were defined separately as given below:

#### **(a) Manufacturing Enterprises:**

- (i) Rs. 25 lakh was the investment limit for micro units.

- (ii) In small enterprises investment limit in machinery and plant was more than 25 lakh but less than Rs. 5 Crore.
- (iii) Maximum and minimum investment limit for medium enterprises were Rs. 10 crore and Rs. 5 crore respectively.

#### **(b) Service Sector Enterprises:**

- (i) Maximum investment limit will be Rs. 10 lakh for micro units.
- (ii) More than Rs. 10 lakh but less than Rs. 2 crore will be the minimum and maximum investment limits for small enterprises.
- (iii) Investment limit for medium enterprises will be Rs. 2 crore as minimum and Rs. 5 crore as maximum.

This above information has been shown in Table-1

**Table -1**  
**Investment Limits (in Rs.)**

Unit	Investment Unit	
	Manufacturing Sector	Service Sector
Micro	Maximum 25 lakh	Maximum 10 Lakh
Small	>25 lakh < 5 crore	>10 lakh < 2 Crore
Medium	> 5 crore <10 crore	>2 crore <5 crore

#### **Small scale units generally includes :**

Small Industrial units, ancillary industrial units, tiny enterprises, small scale service enterprises, artisans, rural and cottage industries and female dominance industries, etc.



### Role of Small Scale and Cottage Industries:

Both agriculture and small and cottage industries are the base of Indian economy. These both sectors are the base particularly of the economy of rural population. Small and cottage industries have very important contribution in Indian economy as clear from the following analysis:

#### 1. Share in Industrial Output:

Share of small and cottage industries in industrial output is continuously increasing. These industries produce about 6000 goods from traditional goods to highly technological and qualitative goods. Following Table 2 shows this information:

**Table – 2**

#### Share of Small and Cottage Industries in GDP

Year	Total value of output (Rs. Crore)	Share in GDP (in % )
2006-07	1198818	35.13
2011-12	1788584	37.97
2012-13	1809976	37.54

**Source :** GOI, Minsitry of MSME, Annual Report 2015-16, Table 2.2, P.16.

It is clear from the above table that total value of output of MSME was Rs. 1198818 crore in 2006-07 which increased upto Rs. 1809976

crore in 2012-13. Share of MSME in gross domestic product was 35.13% in 2006-07 and 37.54% in 2012-13. It watch 28.77% in 2015-16.

#### 2. Expansion of Small Scale Sector:

Activities of small scale sector increased in Indian economy as result of many concessional policies of the government. Table – 3 shows the number of MSME.

**Table-3**

#### Number of MSME (in Lakh)

Year	No. Of MSME
2006-07	361.8
2012-13	467.54
2015-16	633.88

**Source:** GOI: Ministry of MSME, Annual Report 2015-16, Chart 2, P.17

#### 3. Contribution in Employment:

Small scale industrial units are labour intensive in which more people are employed. These units are the main source of rural employment along with urban employment. In India small scale sector is the second largest sector for proving employment after the agriculture sector. Table-4 proves this fact:

**Table-4**

#### Employment in MSME (in lakh)

Year	Employment
2006-07	805.23
2012-13	1061.40
2015-16	1109.89

**Source:** GOI, Minstry of MSME, Annual Report 2015-16, Table 2.1, P.15

Table show that in 2006-07, total employment in MSME was 805.23 lakh which increased upto 1109.89 lakh in 2015-16. Rate of

providing employment in MSME is more than rate of total employment in India. MSME is related with the non-agricultural sector which has many employment opportunities. Employment opportunities in large scale industries in urban area is limited, So development of MSME can increase employment in urban areas also.

#### **4. Efficiency of Small Scale Industries:**

To study efficiency of small scale industries, these are compared with large scale industries. Experts have different views on this issue. Some experts are of the view that small scale industries are more efficient in comparison with large scale industries while other experts say that large scale industries are more efficient. First of all Dhar and lydall studied this issue and concluded that modern small industries are capital intensive, pay less salary to labourers and concentrated in cities. These are less efficient than large industries. Same result was also derived by Goldar on the basis of relative labour productivity, relative capital productivity and relative total factor productivity.

According to some other experts small scale industries have less capital, having higher productivity and are labour intensive. So small scale industries are more efficient than large scale industries. Ram singh K. Asher proved that by investing one rupee of fixed capital in small industries maximum labour employment is created and one rupee investment in small industries gives three times more value added than large industries. In the third census of small industry sector it was found that 0.20 employment was created by investing one lakh rupees in large industries in 2001-02 while if this investment was done in small industries it created 1.39 employment. Thus Rs. 5 lakh investment is required in big industries to give employment to one unit of labour while in small industries investment of Rs. 5 lakh gives employment to 7 labour units. So, on the basis of employment, small industries are more efficient.

#### **5. Decentralizations of National Income:**

Small industries promote decentralization of income, and property and thus make distribution of national income justified. Ownership of small industries is larger and have more capacity to increase employment than large scale industries. Under MSME sector people contribute large share in national product.

#### **6. Contribution in Export:**

After independence small industries grew rapidly and their share in exports increased continuously. Total exports of MSME were of Rs. 155 crore in 1971-72 which increased upto Rs. 6,77,318 crore in 2012-13. Thus share of MSME in export income was 9.6% in 1971-72 which increased upto 41.4% in 2012-13.

#### **7. Regional Dispersal of Industries:**

Big industries are concentrated in cities where their growth is uneven. Most of the big industries have been concentrated in Maharashtra, West Bengal, Gujarat and Tamilnadu. This is not the case with small industries because small scale industries are developed in all areas or sectors according to local demand. Today Punjab is more prosperous than Maharashtra due to small industries.

#### **8. Less Industrial Disputes:**

Industrial disputes are found less in small industries than in big industries. Labour owner relationship in small industries is healthier. The cases of lockouts, strikes etc. have been observed less in small industries.

#### **9. Utilization of Local Resources :**

Small industries utilize local capital and resources. MSME use local savings, raw material and artisan properly which increase their income.

10. Through small and industries traditional and artistic goods are protected which are parts of our cultural heritage.

11. MSME sector depends less on imports and thus saves our foreign exchange. MSME use local techniques of production and their imports are least.

It is clear from above analysis that small industry sector is very important in Indian economy. They play important role in solution of the problem of unemployment which is created by growing population. These industries improve income distribution in economy in the justified way and thus try to reduce the economic inequalities. Contribution of these industries is continuously increasing and thus they are earning foreign exchange.

### **Problems of Small Scale Industries:**

Small and cottage industries are facing many problems. Sickness of small units is increasing day by day. In March, 2014 total number of sick small units was 456771 and in these units bank money of Rs. 27622 crore was stuck. Many small units have been closed down and some are struggling for their existence. Following are the main problems faced by small and cottage industries in India:

#### **1. Problem of Raw Material:**

Small industries depend completely on local raw material. Handicraft industry does not get cotton in sufficient quantity and at reasonable price. Weavers are exploited in two ways-on one side traders charge higher prices for raw material from weavers and on other hand these traders purchase cloth and thread from weavers at lower prices.

Many small industries import raw material from foreign exchange reserves. Presently, MSME are facing losses due to lack of raw material and increasing prices of the raw material.

#### **2. Lack of Capital :**

It is a main problem of small and cottage industries. These industries require long term

debt-capital for purchasing machines and equipments and short run capital for purchasing raw material and to pay wages to workers. Small artisans and entrepreneurs go to money lenders and mahajans to take loan at higher interest rates

#### **3. Lack of Modern Technology:**

Small and cottage industries use old and traditional technique. Machines in these industries have become old and these machines are not cost saving. The output produced by old machines is not quality oriented and thus this output is not according to the change in fashion, interest and preference of consumers.

#### **4. Problem of Marketing & Standardization:**

Small and cottage industries face many problems in marketing their product. Carpets, cloths, saris and many other artistic goods were exported but their demand has decreased both in domestic and foreign markets. To assist small and cottage industries in marketing of their product Trade Development Authority and State Trade Corporations have been established. In 1995, National Small Industries Corporation was established for searching market and taking orders for the product of these industries.

Government has adopted the system of standardization for selling the small products. After standardization of small products, these will be exported to Australia, Canada, America, Japan and other countries of the world.

#### **5. Problem of Sickness:**

Sickness of small and cottage industries is becoming more intensive. Industrial sickness means that situation in which these industries cannot fulfil their financial liabilities. According to R.B.I. "that industrial unit is said to be sick unit if the unit faces cash loss in one year and there is possibility of loss in coming two years and thus there is imbalance in the financial structure of the unit."



According to the published report "Inter-ministerial Committee for Accelerating Manufacturing in Micro, small and medium enterprises sector" in September, 2013 at the end of March, 2013 there were 249903 sick, small and tiny units in India in which Rs. 12800 crore of bank money was stuck. Out of these total sick units, 232525 unit cannot now be started again. 98% are the small units in all the total industrial sick units.

Lack of raw material, lack of managerial efficiency and experience, lack of capital, power cut and problem of energy, problem of choice of technique, etc. are the factors responsible for industrial sickness.

#### **6. Lack of Infrastructure:**

This is also an important problem of small sector. Not getting supply of electricity on time increases the operating cost of this industrial units. Lack of development of sufficient roads is also a big hurdle. In establishment of new units of small and cottage industries paper action is followed unnecessarily. There are many other problems associated with banks, electricity corporation, pollution control board, directorate of industries, etc.

#### **7. Unavailability of Data:**

Data on small and cottage industries are made available by two institutions namely, (i) Small Industries Development Organization, and (ii) Central Statistical Organisation. These both institutions do not have sufficient data about these industries, nor the data are collected regularly. So due to lack of data, process of policy making suffers a lot.

#### **8. Delay in Payment:**

Small and cottage industries do not get payment of their product in time. Products of these industries are purchased mostly by government departments and large units and these purchasers do not make payment in time.

#### **9. Other Problems:**

Lack of managerial and technical skills, lack of market knowledge, unorganized and unsystematic nature of working, etc. are the other problems of small and cottage industries. Government policies are also not proper for the development of these industrial units. There is lack of proper cooperation and coordination among different agencies also.

#### **10. Effect of Economic Reforms:**

Under process of economic reforms certain steps were undertaken by government like abolition of industrial licencing, reduction in tariff, removal of quantitative restrictions etc. These measures affected small and cottage industries negatively. Some of these industries faced dearer imports of raw material. Indian market has rapidly been captured by China products. Indian toy and electronics industries are not in healthy condition and thus 40% units of them have already been closed down. Chinese products are being sold in Indian markets at the price which is even less than the cost of production. This is known as dumping.

To give finance and refinance facility to small business persons of unorganized sector 'MUDRA' Yojana has been started by Government.

#### **New Small Enterprises Policy 1991:**

For promoting the development of MSME new small enterprises policy has been declared by government in August, 1991. Following are the provisions under this policy:

1. Investment limit of tiny sector increased upto Rs. 5 Lakh from Rs. 2 lakh (which further increased upto Rs. 25 lakh in 1997). Local restrictions were also removed for this sector. In new policy commercial activities associated with service sector were also included in these industries.



2. A package was declared for tiny units under the new policy according to which assurance of assistance has been given to these units.
3. According to new policy other industrial units have been allowed to invest in upto 24% equities in small units. By this way both the industrial extremes were tried to come nearer to each other and these big units could be helpful in the development of small units.
4. A new legal system of business-organization has been started by the name of 'limited partnership' under which liability of at least one partner would be unlimited and liability of other partners was kept limited upto their invested capital.
5. 'Sufficiency of credit' has been emphasized in place of 'cheap credit' in the new policy.
6. For government purchasing tiny sector will be given preference.
7. Cooperative institutions, public institutions and other commercial institutions were committed for search of new market for small and tiny sectors.
8. More emphasis had to be given to the establishment of small and tiny industrial units in rural and backward areas.
3. The rebate limit in excise duty was increased from Rs. 3 crore to Rs. 4 crore for small sector.
4. Credit Guarantee Fund Scheme was started.
5. To strengthen the competitiveness of small sector, the policy of non reservation was adopted in 2015. Now no item was reserved for the small industries.
6. Facility of finance and refinance was proposed for tiny, small and medium industries.
7. Legal recognition to the concept of 'entrepreneur' was given under MSME Act, 2006 by integrating the tiny, small and medium industries.
8. Under the New Purchasing Policy of the government at least 20% of the purchasing of goods and services by government departments and public enterprises will be done from MSME during three year in which 5% goods will be of SC and ST. This policy has been implemented from Nov, 2011.

### **'Make in India' Yojana:**

This yojana was formally started by Prime Minister Shri Narendra Modi on September 25, 2014 for making India a 'Manufacturing Hub' by increasing investment for getting rapid industrial growth. Logo of this Yojana is lion. International economists recognize Indian economy as an elephant that has 'dull move'. To break this way of thinking, lion has been chosen as logo of the 'make in India' Yojana. It has been estimated that if the policies of this yojana will be implemented properly, employment will be created in next 10 years by 9 crores.

### **Recent Measures of Development of Small Scale Industries.**

1. Investment limit for small industries was increased in 2006 from Rs. 1 crore to Rs. 5 crore so that these industries can increase their competitive strength.
2. Credit Linked Capital Subsidy Scheme has been launched for technologies improvement. Under this scheme 15% capital assistance will be given on the loan upto Rs. 1 crore.



Registered manufacturing or services sector can be the transformational sector. Increasing skill will be as important as improvement in circumstances for manufacturing. Revolutionary changes can be brought in Indian economy if manufacturing and service sectors are tackled properly. Theory of growth indicates that the transformational sectors should be evaluated on the basis of inherent characteristics and not in the form of traditional manufacturing service. In this work five characteristics have been identified:

1. High level productivity to increase income.
2. Rapid growth rate of productivity at both domestic and external fronts.
3. Capacity to attract resources.
4. Increase in capacity of non-skilled resources available in country.
5. Adjusting skillless resources with resources of country.

Some subsectors of telecommunication and finance are highly productive and dynamic but these sectors did not succeed in attracting more non-skill labourers and thus the benefits of these sectors have been very limited. In other words, dynamic sectors should be skill abundant. Thus there is need to give high priority to the objective of 'Skill India' alongwith the implementation of 'Make in India'.

For the success of 'Make in India' programme India should use correct resources. These resources (means) are given as below:

- (a) Following steps should be taken to increase domestic and foreign private investment.

- (i) Simplification of rules or laws.
- (ii) Reduction of taxes and rates.
- (iii) Preparation of infrastructure.
- (iv) Improvement in labour laws.

If all the above means or resources are made available simultaneously, it will lower the commercial cost and increase the profit. These measures will benefit all the sectors of the economy.

- (b) These means or resources are called 'industrial policy' under which following efforts have been suggested to increase the output-

- (i) To reduce capital cost.
- (ii) To increase concessions and their availability.
- (iii) To establish special economic zone in all manufacturing activities.

- (c) This last category of means or resources has been called 'protected'.

- (i) To give export related benefits to domestic producers.
- (ii) To give protection to domestic industries by increasing custom duties.
- (iii) To pressurize foreign companies to supply local goods.

But this type of policy will be against the provisions of World Trade Organization which can be harmful to the credit of the country. 'Make in India' programme can play important role in industrial development. Industrial growth rate can be increased by making 'Make in India' programme a success through transformation changes in manufacturing sector.

#### **Important Points:-**

- Industrial development is assumed as the

backbone of any economy.

- There were many problems in economic development of India and for their solution government is making efforts. Lack of raw material, lack of demonstration, non-utilisation of capacity of industries, industrial sickness, lack of infrastructure facilities are such problems.
- Many industrial policies were declared for the industrial development. Under Industrial Policy, 1956 industrial development was given higher priority and in Industrial policy, 1977 decentralization of industries was emphasized.
- New industrial Policy was declared on July 24, 1991 in which policies of licensing, permit and quota were sacrificed and policies of liberalisation, privatization and globalisation were adopted.
- Importance of small industries was experienced since ancient period. After independence, efforts were made for the development of small industries. These industries face the problems of old technology, lack of raw material, capital shortage, marketing, non-availability of markets, etc.
- 'Make in India' programme has been started on September 25, 2014 for bringing changes in Indian industries by skill development.

## Questions for Exercise

### Objective Type Questions:

1. New Industrial policy was declared on –  
(a) July 21, 1991  
(b) July 24, 1991  
(c) July 24, 1990  
(d) July 21, 1990 ( )
2. 'Economic Constitution of India' is the name given to industrial policy of –  
(a) Industrial policy, 1991  
(b) Industrial policy, 1997  
(c) Industrial policy, 1956 ( )  
(d) Industrial policy proposal, 1948
3. For how many industries lacking license is necessary ?  
(a) 4 (b) 5 (c) 6 (d) 3 ( )
4. 'Make in India' programme was declared by Prime Minister in-  
(a) July, 2014  
(b) October, 2014  
(c) August, 2014  
(d) September, 2014 ( )
5. Share of small and cottage industries in Gross Domestic Product in 2012-13 was-  
(a) 37.54% (b) 37.84%  
(c) 36.54% (d) 36.84% ( )
6. Concept of tiny industries was adopted in the industrial policy of-  
(a) 1948 (b) 1977  
(c) 1956 (d) 1980 ( )
7. Micro, Small and Medium Enterprises Development Act was enacted in the year-  
(a) 2006 (b) 2007  
(c) 2008 (d) 2005 ( )
8. The year in which MUDRA scheme was launched is –  
(a) March 2015 (b) April 2015  
(c) May 2015 (d) June 2015 ( )

### Very Short Answer Questions:

1. In how many parts industries were classified in first industrial policy of independent India?

2. Where are the main characteristics of Industrial Licensing Policy, 1970 ?
3. What is complete name of MSME ?
4. What is complete name of LPG ?
5. When was the list of reserved goods for small industries cancelled ?
6. What is meaning of dumping ?
7. What is shown by logo of 'Make in India' programme.
8. What is complete name of MUDRA?

#### **Short Answer Questions:**

1. Write any four problems of industrial development.
2. Write short note on 'Make in India' programme.
3. What were the reasons to adopt new industrial policy ?
4. Define industrial sickness.
5. Write any four contributions of small sector in Indian economy.
6. Write name of those industries for which taking license is compulsory.
7. Write short note on Industrial Policy, 1956.
8. Define small and cottage industries.
9. Write name of reserved industries for public sector.
10. Why is Indian Economy compared with elephant ?

#### **Essay Type Questions:**

1. Explain role of industrial sector in the development of Indian economy in detail.
2. Write detailed note on 'Make in India' programme.
3. Explain the importance of small and cottage industries in Indian economy.
4. Critically analyse the industrial policy.
5. Explain the problems in the development of small and cottage industries.

#### **Answer to Objective Type Questions:**

(1) b (2) c (3) b (4) d (5) a (6) b (7) a (8) b

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