## Centre for Distance and Online Education
## Punjabi University, Patiala

**Class: M.A. II (Economics)**

**Semester: III**

**Paper: II (Evolution and Structure of Indian Economy)**

**Unit: I**

**Medium: English**

***Lesson No.***



***Department website: www.pbidde.org***

## Syllabus for M.A. (Economics) Part-II Semester III

## ECOM22302T: Evolution and Structure of Indian Economy

**For Regular and Distance Education Students**
Maximum Marks: 100
Internal Assessment: 25 Marks
External Assessment: 75 Marks

**For Private Students**
Maximum Marks: 100

### INSTRUCTIONS TO THE PAPER-SETTER

For **Regular and Distance Education Students**, the question paper will consist of three sections:
A, B and C. Sections A and B will have four questions from the respective sections of the syllabus and will carry 12 marks each. Section C will consist of 9 short-answer type questions of three marks each, which will cover the entire syllabus uniformly and will carry 27 marks.
For **Private Students**, the question paper will consist of three sections: A, B and C. Sections A and
B will have four questions from the respective sections of the syllabus and will carry 16 marks each. Section C will consist of 9 short-answer type questions of four marks each, which will cover the entire syllabus uniformly and will carry 36 marks.

### INSTRUCTIONS FOR THE CANDIDATES

Candidates are required to attempt five questions in all selecting two questions from each of the Section A and B and the entire section C.

### SECTION-A

Economic Development during 1857-1947: Evolution of land tenure system. Commercialization of agriculture. Trend towards market economy. Demographic development. Rural indebtedness. Role of foreign capital. Economic consequences of British Rule. Need for planned economic development. Basic strategy for development of Indian economy under planning. Changes in the strategy of Indian planning -Role of NITI Ayog. Role of public and private sectors in India.

### SECTION-B

Agrarian reforms: New Agricultural strategy and green revolution. Production structure of Indian agriculture. Terms of trade between agriculture and industry. Development of irrigation. Nature and extent of industrialization in India. Existing production structure of industry. Industrial policy 1948, 1956 and 1991. Economic Reforms. Growth of large industrial houses. Small scale industries and their problems.

## RECOMMENDED READINGS

Jagdish,N. Bhagwati & Sukhemony Chakravarty: Contributions to Indian Economic Analysis: A survey.
Krishna Bhardwaj: Production Conditions in Indian Agriculture, Cambridge University Press.
D.R.Gadgil: The Industrial Evolution in India in Recent Times: 1862-1939; Oxford University Press.
P.C.Joshi: Land Reforms in India, Vikas Publishing Co.
David Lehmenn (ed): Agrarian Reforms and Agrarian Reformism.
V.B. Singh (ed): Economic History of India 1952-1957, allied Publishers.
Charan D. Wadhwa: Some problems of India's Economic Policy, Tata Mc Graw Hills Publishing Co.
Ruddar Datt & KP.M Sudharam: Indian Economy, S. Chand & Co.
Romesh Dutt: The Economic History of India, Vols. I &II
Surendra J. Patel: Agricultural Labourers in Modern India and Pakistan

## SUPPLEMENTARY READINGS

M.K.Chaudhary: Trends of Socio-Economic Changes In India: 1871-1961.
S.Katovsky: Reforms in India.
Charan Singh: India's Economic Policy: The Gandhian Blue-Print, Vikas Publishing House.
Daniel Thorner: The Agrarian Prospects in India.
E.M.S. Namboodripad: Economics and Politics of India's Socialist Pattern, Chaittnay Publications. Premit Chaudhry: Some Aspects of India Development, George Allen & Unwin, Bleckie
K.N. Raj: India, Pakistan and China: Economic Growth and Outlook.
Bhawani Sen: Evolution of Agrarian Relations of India, People's Publishing House.
P. Singh & V.B. Singh (ed.): Social and Economic Change: Poverty and Social Change, A Study in the Economic Reorganization of Indian Rural Society, Macmillan Press.
Thoedor Bergmann: Agrarian Reforms in India, Agricole Publishing Academy.
Sukhamoy Chakravarty: Development Planning: The Indian Experience, 1987, Oxford.
Terence J. Byres (ed.): The State, Development Planning and Liberalization in India, Oxford, 1999.

**M. A. (ECONOMICS)** **PART-II** **PAPER-ECO-302**

**SEMESTER-III** **EVOLUTION AND STRUCTURE OF INDIAN ECONOMY**

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# EVOLUTION OF LAND TENURE SYSTEM DURING BRITISH PERIOD

**Structure of the Lesson:**



## 1.1.1 Objectives of the Lesson :

The main objective of this lesson is to know about the prevailing land tenure system during the British period especially from 1857 to 1947. You will learn in this lesson about different modes of collection of land revenue from the cultivators.

## 1.1.2 Introduction :

In the first part of the lesson you will come to know about the meaning of land tenure systems. This is the relationship between the cultivator who was cultivating land and the owner of that land. Who was paying the rent or the revenue and to whom? What were different systems of collecting land revenue. Simultaneously, a critical evaluation is done along with each of these systems. In the later part of the lesson, a brief account of the impact of these systems on the economy is also discussed.

**1.1.3 Meaning :**

The term 'tenure' is a Latin word which means 'to hold'. In the context of land it means, terms and conditions under which land is held. It defines the rights and privilages to which ownership/tenancy confers upon a person and also obligations which he is required to discharge. It

shows the relationship in which the owner stands vis-à-vis his tenant. He may himself be the owner, cultivator or the functions of ownership and cultivator may be performed by separate persons of his tenancy. The owner in his turn, pays land revenue to the state. A tenurial system thus covers such things as the rights and obligations of the owner, the cultivator and the government and also their inter-relationships.

**1.1.4 Importance of the Study of Land Tenure System :** The study of the systems of land tenure is important due to a number of reasons. These are as follows:

(i) It helps the State to locate the person in whom the *ownership* of a particular piece of land is vested. It can then proceed to claim land revenue from him for the plot of land held by him.

(ii) It has a close and far-reaching effect on the *productivity of land*, If, for instance, it is the owner who cultivates the land, naturally, he puts in his best efforts and invest to his best capacity in the improvement of his land. He knows that the fruits of labour and investment will be entirely his as he is not to share them with anyone.

A system of land tenure may also affect the productivity of land either by leading to the creation of farms which are too small to be efficient units of cultivation or resulting the establishment of farms which are too large to cultivate intensively.

A tenure may also lead to the reduction in the standard of living of a farmer, if it allows charging exorbitant rents of high rates of interest. It is for this reason that due notice has to be taken of the prevalent tenurial system in any scheme of agricultural reconstruction.

(iii) It determines to a very large extent *of social* and *political structure* of a country. Whether the social system in a country is feudal, capitalist or socialist depends considerably on the type of the land tenure found there. It also determines the village institutions.

In short, it is only a fair and sound system of land tenure which can lead to the maximisation of production from the soil and ensure the welfare and contentment of those who work on it. A good system of land tenure will not allow any intermediaries between the government and the actual cultivator. It can help to reduce to the minimum and even to eliminate all chances of agrarian conflicts and ensure peace and goodwill to prevail.

### 1.1.5 Main Systems of Land Tenure in India :

The main tenurial system which came to be evolved in India during the British period may be classified as :

1.1.5.1 Ownership Tenures

1.1.5.2 Tenancy Tenures

Taking the ownership tenures first, it is found that as a result of series of historical factors, a large variety of tenures came to be prevalent in the country during the British regime. They were the result of the ignorance of the foreign rulers of the actual conditions which had prevailed in the country from times immemorial. To a certain extent they were also the outcome of the grafting, on the Indian conditions, of concept with which the foreign rulers were familiar and partial too in their own country. Still another reason for the adoption of these concepts was the convenience and ease with which the foreign masters felt that they could have established a workable system of land revenue collection which was as the main source of income of the state. They were naturally interested in the emergence of a system which could best help to fill conveniently their empty coffers. They were not much bothered about the distortion which the new practices introduced or the wrongs and injustices they inflicted on certain sections of the population. It was a case of ends justifying the means.

### 1.1.6 Land Tenure on the basis of Ownership Tenure

**1.1.6.1 Zamindari System :** Pre-British rulers claimed that everything including land legitimately belonged to them. The previous owners could continue to cultivate land provided they paid one-third of the produce to the state as land revenue. To enable collection of land revenue conveniently, the practice of appointing land revenue farmers came to be introduced. They paid nine-tenth of collection to the state treasury and retained one tenth as their own share or commission.

**1.1.6.1.1 Need and Meaning of Zamindari System:** Adopting and improving the practices introduced by Sher Shah Suri, Emperor Akbar and his immediate successors evolved a fairly just and sound land system. A hierarchy of Government officials at all levels like Patwari, Canungo, Sardar Canungo, Amin, Sardar Amin, etc., were deputed to maintain regular land records. The system, however, deteriorated with the gradual decay of the Mughal power. The land revenue officers became over grasping and tyrannical. They started rack-renting the peasantry and became lax in depositing of empire, become virtually independent only nominal allegiance to the Mughal ruler in Delhi.

It was at this juncture that the British occupied Bengal, Bihar and Orissa after the Battle of Plassey in 1757. The Nawab (the provincial ruler) became dependent upon the British power and his authority was transferred to the later as a result of measures adopted in quick succession. To the power of the sword was added the power of money when Nawab Mir Jaffar was persuaded to make a grant of the Diwani rights of Bengal, Bihar and Orissa to the British East India Company. It was decided in 1772 that the company itself should stand forth as the "Diwan " could make its own arrangements for the collection of land revenue.

At first, the British started collecting land revenue by annual auctions of Zamindaris for the right to collect land revenue. Later the arrangement was made quin-quennial and still later decennial. The highest bidders were appointed. These land revenue farmers collected whatever they could and after paying the company's contract money, retained the rest for themselves. Inhuman methods were used on the Zamindars to make them pay the land revenue. Failure to meet the demand meant the expropriation of the Zamindars and many of them were completely ruined. The Zamindars were re-auctioned. The peasantry in its turn, was rack-rented by the Zamindars.

The heavy extractions led to more than half of the total cultivated area being thrown out of cultivation by 1776. Famines followed in quick succession. There were agrarian rebellions like the famous Sanyali rebellions (1772-1789). The rebellions were suppressed without much difficulty, but the company, inspite of the tyranny let loose, failed to raise the required revenue.

Because of this the Zamindari system with permanent settlement was proposed to be introduced. Though Warrant Hastings was opposed to the idea. It was favoured by Lord Cornwalis. By a proclamation issued in March 1793, the decennial Zamindars proprietary rights in the soil were vested, subject to their regularly paying the revenue to the government. At a stroke the real owners were dispossessed of their hereditary claims to the owners of the estates which had never belonged to them.

### 1.1.6.1.2 Motives to Introduce Zamindari System :

(i) The real motive behind the move was to stabilise the income of the government which had been uncertain and fluctuating hitherto. Besides assuring the government of a certain minimum income, it saved the latter, of botheration and expenses incurred in periodic revisions of land revenue demand.

(ii) The second aim was to create a class of powerful landlords who, out of sheer self-interest would be interested in the continuance of the British rule and at the time to crisis would lend their full support to it. Lord Cornwalis also hoped that the landlords would act as natural leaders of society in the rural areas and would provide the necessary incentive, capital to bring about improvement in agriculture.

The Marxists suspect that this measure was meant to secure a twofold objective :

* To keep India an agricultural country to supply the rising British industry with agricultural raw materials and to serve as market for British industrial goods.
* To secure an increase in government's income from land by diverting the money capital in the hands of urban rich into agricultural improvements. Most of the Zamindars had been urban speculators who had amassed wealth.

### 1.1.6.1.3 Assessment :

The criticism of the Zamindari system and Permanent settlement range from being hailed as a bold, brave and wise measure to its condemnation as a great 'blunder' as well as 'gross injustice'. The main criticism rounds the following points :

(i) The Zamindari system which was modeled on the institution of landlordism in England differed from it in one most important aspect. While the latter grew out of the peculiar social condition of England, the former was artificially created by ignoring and departing from the traditional land relations. Unlike his counterpart in England who cared for his social obligations and took pain to bring about improvements in agriculture, the Indian landlord was mainly interested in squeezing out of tenants more and more money. The consequences were disastrous for the cultivators who had been degraded from the positions of owners to that of tenants.

(ii) The Zamindari system placed the ryot (tenants) completely at the mercy of the Zamindar. Previously, there were the customary rates of rent which had prevailed and which could not be arbitrarily raised. Under the new system, there was not any restraint on the Zamindars and he extorted as much rent as he could.

Moreover, due to the increasing pressure of growing population on land, the cultivator's demand for land was becoming inelastic giving new opportunities of exploitation to the landlords. In bad agricultural seasons the revenue remission secured from the government benefited the zamindars. They were not passed on to the tenants who had to bear the full burden of paying rents.

(iii) The system delivered the tenants, bound both hand and foot to the tender mercies of the landlords. The rights and privileges of the farmer received no protection. They could be evicted without any difficulty. It was not till 1859 that some protection was given to them, but due to their ignorance and passive character, the protection came to be on paper only.

(iv) The system led to the evil of the chain of intermediaries. They had no other function except to feed fat on the fruits of the soil of the cultivator. Simon

Commission found in one case as many as fifty intermediaries between the State and cultivators, all of them parasites.

(v) The system deprived the government of receiving its due share in the ever expanding income of Zamindars. While the annual income of the Zamindars increased from Rs. 20 lakhs in 1793 to Rs. 88.2 lakhs in 1940, the income of the government remained fixed at about Rs. 300 lakhs. The Government lost in another way also. The natrual resources like minerals and fisheries, not taken into account at the time of permanent settlement, came to be expolited by the Zamindar to the exclusion of any benefit going to the state.

(vi) The system also deprived the government of intimate knowledge of conditions in the rural areas. It lost direct contact with the ryot. In the absence of village records, administration came to be carried on without taking into consideration, local conditions, traditions and customs. The government left with no urge to take steps for the improvement of agriculture or the agriculturist.

(vii) Depending upon hopes of Lord Cornwalis to the contrary, the landlords in permanently settled Zamindari areas became "absentee landlores", with the least interest in the village affairs. They became suction pumps for the wealth of the villages. The property of the Zamindar was the measure of extreme poverty of tenantry. The rent receiver contributed little to wealth production.

(viii) By keeping the ryots at or below subsistence level, the system not only restricted the internal market but also dried up a source for producing economic surplus. It was appropriated by the class of parasites. This, in a way, explains the stunted and thwarted economy of India during the nineteenth century.

(ix) The high rents collected by the Zamindars and the high rates of interest charged by the money lenders diverted a large proposition of agricultural income form the cultivator to the landlords and the money lenders While the cultivators lacked the resources to invest, the landlords and the money lenders were not interested to invest in the improvement of land.

(x) The social change brought about the system was equally bad. It led to the emergence of all-powerful landlords on the one hand and the whole lot of the poor and dispossessed peasantry on the other end of the rural society. It sounded death knell of the traditional good relations in the villages. There came to prevail mutual distrust and tension.

Because of all these reasons of the system of Zamindari came to be described as 'one of the great wrongs' and as 'one of the most enormous blunders.'

The shortcomings of the system of Zamindari became quite well known and the British were disinclined to extend the system to other parts of India. Besides Bengal, Bihar and Orissa, it was extended to some areas in Uttar Pradesh and the areas of Northern Sircans in Madras Presidency. There were occasional proposals to extend the permanent settlement of land revenue to other parts of India. The last effort to get it extended to the whole country was made by R. C. Dutt, the Indian Civilian and economist, but the proposal was laid to rest by Lord Curzion at the beginning of the twentieth century.

The Zamindari system with temporary settlement of land revenue (20 to 40 years) introduced in some areas of Madhya Pradesh (then known as Central Province) and Bombay Presidency. The Malguzars of C.P., the

Talukdars of U.P., Bombay reassembled the landlords of Bengal and owned big estates. So there came to be two types of the Zamindari system :

(i) The Zamindari system with permanent settlement in Bengal, Bihar, Orissa, and parts of Assam, U.P. and Madras Presidency.

(ii) The Zamindari system with temporary settlement in parts, Central provinces of U.P. and Bombay Presidency.

### 1.1.6.1.4 Abolition of Zamindari System :

The Zamindari system remained under fire during most of the years of British regime. It was only after the installation of popular ministries in the province under provincial Autonomy in 1937 that Floud Commission was appointed to report on the feasibility of the abolition of Zamindari system with its long chain of intermediaries. The commission's report remained under consideration due to war time conditions and the turmoil preceding and following independence, action had been delayed. On the eve of independence, Zamindari tenure was prevalent on 40% of land under cultivation in the country.

The abolition of Zamindari tenure was given high priority after independence. Each state enacted its own legislation for this purpose. By 1954, the laws to abolish the system on payment of compensation had been passed. As a result of enactment of these laws, it was estimated that about two crores tenants were brought into direct contact with the state. They were made owners of land. The basis of fixing compensation differed in different states, they could be grouped into three categories.

(i) The net income of owner of the land was made on the basis for the determination of compensation in Bengal, Bihar, Tamil Nadu, Manipur etc. The compensation paid was more in the case low income owners and less in case of high income owners in some states, however, a flat rate was paid, but low income owners were given grant to help them.

(ii) The land revenue formed the basis for compensation in Maharastra, Assam, Madhya Pradesh, Uttar Pradesh, etc, and the compensation was a number of times higher than revenue paid by them.

(iii) The market value of land was made the basis in Kerala.

The compensation was paid either in cash or government bonds or both. Ordinarily, the payment to big Zamindars was made in bonds and to small ones in cash. The bond could be got encashed in equal installments spread over 20 to 40 years. The total compensation required was put at Rs.670 crores.

Inspite of the loopholes in the legislation and its enactment, it could be safely summarised that the abolition of the Zamindari system was the first solid step by the state to improve the agrarian situation.

**Self check exercise**

1. What was the need to start the Zamindari system?

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2. Explain farmers conditions under Zamindari system?

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**1.1.6.2 Ryotwari System :** Physical condition in Bengal differed from those found in most parts of the rest of India. Here, a part from a few towns, the population was scattered in small clusters of huts. These were found wherever the ground rose a little above the water logged fields. Most of rural Bengal, except the less fertile lands inhabited mostly by the aboriginal tribes was, inaccessible except by the few navigable rivers, This presented a difficult problem for the tax collectors. On the other hand, the people in the Deccan lived mostly in the villages. It was easy to map out the country, assess the value of the land and collect the revenue village by village. This was something impossible in Bengal of the eighteenth century.

**1.1.6.2.1 Need to introduce Ryotwari System :** The Britishers had been led to recognise the land revenue farmers or Zamindari as the owners of land and to collect the land revenue through that class. In Madras and Bombay, on the other hand, the British Administrators attempted a direct assessment of the 'ryot' or peasantry, and collect the revenue through the salaried officials. The different positions adopted in different parts of the country were thus mainly the result of the sharp differences in physical conditions of these areas.

The East India Company favoured the extension of the Bengal system in Madras also. But it was dissuaded from doing so as it was soon realised that permanent settlement meant sacrifice of all increase in revenue for the future. As a consequence, the official opinion started favouring the Ryotwari system.

**1.1.6.2.2 Meaning of Ryotwari System :** Under Ryotwari, the ryot was directly under the state which treated itself as the real owner of land. Land revenue was assessed on each separate holding and the ryot was recognised as the proprietor. He was given the right to sublet, mortgage or transfer his holding by gift or sale. He could not be ejected so long as he was regular in the payment of land revenue. The settlement of land revenue was temporary and could be revised in the subsequent assessments. The period of settlement varied between twenty to forty years.

The Ryotwari system was first introduced by Thomas Munro and Captain Read in Bara Mahal Distt. of Mardas in 1792. It was gradually extended to the other parts of the Presidency except those where permanent settlement of the revenue had been made. In due course, the system was extended to Bombay, Assam and Bihar as well.

The authors of the Ryotwari system were wrong in their contention that individual property in land was the rule in ancient India. In fact, the right of property had vested in the village communities. Elphinstone noted the existence of such village communities in Bombay presidency. He described them as almost self-sufficient to protect their members if all other governments were withdrawn. The Madras Board of Revenue between 1808-1818 favoured the giving of recognition to village communities. It was difficult to sustain the claim of authorities that the Ryotwari system in admitting the proprietorship of land as vested in the individual, was only continuing the old tradition.

**1.1.6.2.3 Assessment :** This system, also had some favourable as well as the negative implications. Ryotwari system was favorable because of the following reasons :

(i) It was claimed that the system put the cultivator in direct contact with the state.

(ii) Being the virtual owner, the individual cultivator had all the incentive to make investment in land to affect improvements.

(iii) It was hoped that the system would lead to the establishment of a self-reliant and a self-confident peasantry. The elimination of intermediaries was expected to contribute to the creation of peace and stability in the country.

(iv) It was claimed that the system would help the government to come to the rescue of the peasantry in season of crop failure by suspending the collection of land revenue or remitting it partially or totally if the circumstances demanded. But the hopes in the ryotwari system failed to be realised in actual practice. The revenue officers considered it as almost a sacred duty to increase assessment in subsequent settlements. Rent grabbing by the state was in no way different from the extortions practised by the Zamindars. The system left too much in the hands of the revenue officers. Their estimates of assessment were merely guess work and remote from reality. The individual cultivators were not given a chance to put forth their case to their actual produce, expenses incurred in raising the crop and net income that accrued to them. The revenue officer's verdict was final. The cultivators did not have the right to appeal. The consequence of the failure to meet the land revenue demand involved the alternative to quit the ancestral land which was then sold. The land revenue was collected with great rigour. All sorts of tortures such as making a man stand in the sun, preventing him from easting his meals or responding to the calls of nature were current for the realisation of land revenue. The whip was also frequently applied to the backs of those unable to pay. The income of the government from land revenue rose from this settlement. But the misery of the peasantry also rose in equal measure. Malnutrition and starvation became general. Epidemics became more frequent and more fatal due to the lowered vitality of the people to resist. The cultivators had little security and staying power.

Inability to pay the heavy land revenue demand made the cultivatorsto fall into the clutches of the money-lenders. Land revenue, infact, became the main cause of peasantry's indebtedness. The government itself looked upon the money lender as the mainstay for the payment of the land revenue by the cultivator.

The increase in indebtedness resulted in the large scale transfers of land from the agriculturist to the money lending classes. Deprived of their land, the peasantry was lowered to the position of agricultural laboures or share-cropper. The fat of the soil came to be appropriated by the money lenders in the form of rent and interest. The money lenders virtually came to occupy the same place in the Ryotwari system as was occupied by the Zamindars in the Zamindari system. The seriousness of the situation could be visualised by the fact that by 1850, 60% of the cultivators in Gujarat were tenants.

The expectation that the system would provide incentive to the cultivators to invest in the improvement of land was also not fulfilled. The high land revenue demand left very little with the ryot to invest in the improvement of land. The pride of private ownership of land was nullified in this case and the confidence and zeal of the ryot was lowered.

The system also gave free rein to corruption. As the periodic assessment was under the control of the revenue officials and they could proceed arbitrarily the villagers knew that they could not escape higher assessment except by greasing the palms of the officials. No effort was spared by the villagers to buy the officers like the 'Tehsilder' to secure low assessment. The Ryotwari system did grievous harm to the village institutions by making settlement with the individuals and not the corporate village community. R.C. Dutt was correct when he wrote that the village communities in Madras declined from the date of Ryotwari system was introduced.

Instead of bringing about increase in production of promoting the prosperity of the people, the top heavey assessment to which the system led spelled ruin for the cultivator and rendered land to little value. The cultivator had not only little left for investment in land his incentive to invest was killed as he knew that if there is any increase in return from land, it would be appropriated by the government through enhancement of assessment. The districts like Coimbetore where the assessment was low presented a contrast. Agriculture flourished there as people were left with a surplus to invest and had not been deprived to incentive to do so by a fear of enhanced assessment.

In fact, the Ryotwari system brought in the Zamindary system through the back while claiming that it had killed the feudal basis of land holding. It involved a small section of the cultivators who belonged to the upper strata of village community of strengthen their hold on the land taken from the latter.

Yet, it has to be acknowledged that the Ryotwari system had an edge over the Zamindari tenure as it prevailed in Bengal, etc. The ryot under the Zamidari tenure could not be protected against illegal extractions. The ryot's right to sell and transfer land was restricted and even denided. He was very often deprived of his land through fraudulent practices. At least the bigger cultivators in the ryotwari areas were mostly to struggle against these handicaps. Their position was somewhat better as compared to the cultivator under the Zamindari system.

In another aspect also, the position in the ryotwari areas was better than in the Zamindari areas. There were more irrigation facilities made available to the farmer. The cultivators, at least a section of them, were able to retain some surplus and even employ wage labour to develop agriculture. In this respect, the ryotwari tenure scored, may be to a little extent, over the Zamindari tenure.

### 1.1.6.3 Mahalwari System :

The extension of the British rule to Banaras (1775), Allahabad and neighbouring districts (1801) and Delhi and Agra (1803) had led to pledges to the land holders of these districts to introduce permanent settlement. But the pledges could not be honoured. The authorities, after a long debate, had come to conclusion that permanent settlement meant sacrifice of additional revenue to the state. Lord

Bentinck, in 1833, decided in favour of introducing the Mahalwari system in these areas. The system was later extended to the Punjab after its annexation in 1849. It also prevailed in some parts of Madhya Pradesh.

**1.1.6.3.1 Meaning of Mahalwari System :** "Mahal" means a revenue estate which generally was the whole village. Under the Mahalwari system, the peasant proprietors entered into agreement with the state for the payment of land revenue for a fixed period. The agreement was not with an individual but with the whole village. The village itself assigned to each man the share of the land revenue filling to his lot. Thus, the responsibility for the payment was not only individual but also collective. An individual proprietor was responsible for his co-villagers and they were for him. They were ultimately bound together by joint responsibility. If one of them was compelled to sell his rights for any reason, the co-villagers had the right of pre-emotion or right of first purchase.

In nut shell, a body of co-sharers jointly claimed by ownership of the entire land in the village. The villages were recognised as units by themselves and the ownership of the property was joint or communal. The land was shared by the co-shares in one of the following ways :

(i) In case of the ancestral villages it was the relationship with the original ancestor which determined the share.

(ii) In the non-ancestral village land was shared either according to the number of ploughs owned or with reference to the share in wells or just in equal lots.

(iii) When there was no sharing it was the principal of defecto (actual) holdings that prevailed . The responsibility for the payment of land revenue was both individual and joint. Generally, payment was made through a head man who was a co-sharer of standing. He was given a percentage from the collection for his services.

The arrangements for cultivation of the land varied from area to area. In the joint village of U.P. (North Western Province of old) to propriety bodies descended from the ruling cultivators who were reduced to the position of tenants. In the Central Punjab, on the other hand, were villages which had been founded by an ancestor of members of a particular 'bhaichare' the cultivation was mostly by the co-sharers themselves and the numbers of tenants was small. But in certain parts of U.P. and the Western Punjab, co-sharers came of superior caste. They considered it below their dignity to work in fields and the cultivation came to be carried on by tenants.

**1.1.6.3.2 Assessment :**

The Mahalwari system in U.P. and Central Provinces conformed, more or less, to the Zamindari system with temporary settlement. The Talukadars of Oudh and the Malguzars of C.P. were in no way different from the landlords in the Zamindari tenure areas. The certain areas of the Punjab, it amounted to the ryotwari system. In both cases, the system was full of defects. The cultivators fared better than the peasant proprietors under the Ryotwari system or the tenants under the Zamindari system. The measure for their protection had afforded them no relief.

The Mahalwari system was regarded as the best of all the three systems provided the peasant possessed enough land to cultivate it with the help of his family. The system it was claimed, was conducive to promoting the establishment of co-operative farming as there was already a tradition of joint responsibility.

**Self check exercise**

3. What is the difference between Mahalwari system and Ryotwari system?

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4. Explain Mahalwari system.

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### 1.1.7 Tenancy Tenures :

The problem of securing the tenants against rack-renting by the landlords had come to the notice of the government soon after the introduction of the Zamindari system. The evil also made itself manifest even in the Ryotwari and Mahalwari systems. But action was long delayed. The Court of Director of the East India company had observed pointedly in 1819 that the arrangements under the Zamindari tenure had led to serious injustices. And yet 40 years collapsed before the government came forward to protect the interests of the ryots by passing in Bengal Rent Act in 1859. It attempted to define the rights of tenants and protect them against frequent enhancement of rent and arbitrary ejectement. The Rent Act of 1873 was applied to North Western Province and Oudh. In Punjab, some safeguards were included in terms of settlement itself.

The Rent Acts created two types of tenancy : Occupancy Tenancy

### 1.1.7.1Occupancy Tenancy :

All those tenants who had held the same land for a period of 12 years were declared occupancy tanants (Maurusi). Their rents could not be raised except on certain grounds which were laid down, they could not be ejected so long as they continued to pay. In case of ejectment, they had to be paid compensation for any improvements affected by them in land in the form of wells, embankments etc., or trees planted by them. The occupancy right could be sold by the tenant if he so wanted, by the landlords were given the right of pre-emotion. Any suspensions or remissions of land revenue granted by the government to the landlords had automatically to be passed on to occupancy tenants.

**1.1.7.2 Tenancy at Will :**

The Rent Acts gave no protection to these tenants. They could still be ejected at the sweet will of the landlord. Their rents could be increased arbitrarily. No compensation was to be paid to them for improvements when they vacated possession of land. They were not to benefit from suspensions and remissions of land revenue granted to the government. The occupancy status was granted only to a limited number to tenants. The tenants at will continued to be ruthlessly exploited. The friction between landlords and tenants continued to increase. There were riots in Bengal, and Bihar during the years 1872-76. A series of tenancy laws were enacted with a view to preventing indiscriminate ejectments, controlling rents and ensuring fair compensation for improvements carried out by the tenant in the course of his tenancy.

There was also a phase of tenancy legislation during 1920's securing occupancy or statutory life tenancy for the tenants at will. It was after the provincial autonomy in 1937 and really after 1947 that the problem came to be seriously tackled.

## 1.1.8 Summary :

The land tenure system had taken, more or less, positive and definite shape during the century preceding the mutiny. The main interest o f the British rulers was how to secure the maximum payment from land revenue. The objective by evolving Zamindari tenure with permanent or temporary settlement was not realised i.e. they favoured the ryotwari arrangement. They thought that the ryot would naturally be eager to improve the land and thus help to increase the yield of land revenue. They had kept in view another aim also, that is to create a section of population whose interest could be identical with continuance of the British rule. In Punjab for, introduction of Mahalwari system there were the twin aims of appeasing and reconciling to the British rule the disbanded Sikh soldiers who had gone to their homes in the villages. This was done by making them peasant proprietors. In the initial years, land revenue demand was deliberately kept low and was even scaled down whenever there were representations to that effect.

There were also economic considerations which became more clear as the extent and power of the British rule increased. They were to develop India into a supplier of raw materials for British industry at home and a market for sale of British manufactured goods, particularly cotton textiles. As noted earlier, none of the systems was without serious faults which increased in intensity with the passage of time. It took a long period to pay attention to them. The problem of rack-renting was only attended to in 1859. The transfer of land to the non-agriucultural money lenders was noted quite early. But no steps were taken till the Deccan Riots of 1875. The Land Alienation Acts came towards the close of the 19th and beginning of the 20th century. Zamindari tenure could only be abolished after the attainment of India's independence. There is still going on an effort evolving for a more satisfactory system of land holding which could secure production with social justice and help to avoid agrarian tension and class bitterness.

### 1.1.9 Short answer type questions :

i. What do you understand by Land Tenure Systems ?
ii. Analyse the importance of the study of Land Tenure System ?
iii. What was the idea behind introducing Zamindari System ?

### 1.1.10 Long answer type questions :

i. On what basis the Zamindari System was criticised ?
ii. Bring out some Economic affects of Land Tenure System ?

### 1.1.11 Recommended books :

| | | | |
|---|---|---|---|
| i. | Economic History of India | : | R.C. Dutt |
| ii. | Economic History of India, 1957-1966 | : | G. Kaushal |
| iii. | Evolution of Indian Economy | : | K.S. Gill |

M. A. (ECONOMICS) PART-II PAPER-ECO-302

SEMESTER-III EVOLUTION AND STRUCTURE OF INDIAN ECONOMY

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# TRENDS TOWARDS MARKET ECONOMY AND COMMERCIALISATION OF AGRICULTURE

**Structure of the Lesson :**



## 1.2.1 Objectives of the Lesson:

In this lesson we will study about commercialization of agriculture and trends towards market economy. What were the reasons for commercialization of agriculture during the British regime and what were the reasons of the advent of money into economy.

## 1.2.2 Introduction :

The Portuguese discovery of sea route to India via the cape of good hope and other geographical discoveries in the fifteenth and sixteenth centuries and the gradual development in oceanic transport brought India into close touch with the developing West. In the past, Indian commerce was largely confined to the countries of Far East and the Middle East and due to the prevailing costs and risks of transportation only luxury articles having less weight and more value, were exchanged in trade. The discoveries of sea routes made possible large exports to the West. All countries in the west started specialising in trade with India. The Indian rulers appreciated these transactions and offered concessions to the traders. Rivalry for these concessions and later for obtaining poitical power were a marked feature of the Indian scene in the eighteenth and nineteenth centuries. In this rivalry, the English East India Company ultimately emerged victorious and succeeded in winning the extensive empire for the British crown.

In the early years of commercial relations between India and Western Europe various products of India were purchased by European merchants for sale in Europe. But since the market for European products in India was extremely limited, Indian exports had to be paid for by the transfer of precious metals (bullion) from Europe to India. As English merchants became more and more prominent in the Indian trade they had to face a mounting criticism in their own country of destroying English manufacturers and demanding England of the precious metals. The Indian commerce received the real impetus in the middle of nineteenth century when England established her supremacy. They abandoned the principles of mercantilism and adopted the policy of protection that too of discriminating suitable to their motive. As a result India's trade increased manifolds. During 1854-59, imports in India (Rs. 15.37 crores) were nearly four times higher than during 1834-39 (Rs. 4.97 crores). Exports rose during the same period from 11 crores to 22.2 crores.

**1.2.3 The Internal Market :** Along with the changes in the external trade, the internal market of the country was also being opened up. Duties on internal transit of goods were rapidly abolished after 1836. The railways and road building programmes undertaken since the middle of nineteenth century created avariable revolution in the means of transport. The railways were constructed in such a manner that principal ports of India like Calcutta and Bombay were linked up with the interior, thus facilitating the movement of goods from remote areas to into and out of the country. Difficulties about means of payment were solved after 1835 when a uniform rupee coinage was legalised throughout the country. By the third quarter of the nineteenth century free trade principles were so much exploited that it led to the abolition of almost all import duties by gradual steps after 1875.

**1.2.4 Commercialisation of Agriculture :** Indian village was self sufficient until the first half of the nineteenth century. It produced almost everything which was required to be consumed. There were only two major crops which could not be produced in all the villages they had specific area under their cultivation. These crops were cotton and sugar cane. Even in these crops, trading was very limited. Indian economy at that time was essentially a barter economy and the need for money was hardly felt. The services rendered by the villagers to each other were paid back in goods.

After 1860, some developments took place and the Indian villages were no longer isolated from the rest of the economy. They transformed the nature of agriculture and a good proportion of land went under the plough for purposes of export. These developments led to the introduction of new cash crops like tabacco, potatoes, groundnuts, indigo, jute, tea and coffee. These crops, however, were not new to the Indian farmers. They used to grow them in small pieces of land around their villages. The change was not to much increase in the total area under these crops rather the change was in the direction of increasing production and productivity. The irrigated areas of Deccan took to the cultivation of sugarcane, cotton growing localised in Bihar, jute in Bengal and wheat in Punjab.

Some of the factors responsible for this increase in the size of the market and extension of the use of money and production for sale (commercialisation) are detailed below :

**(1) Transport :**

Development in transport was the significant reason of the extension of market in India. This included (a) Railways (b) Canals.

(a) Railways made a rapid stride between 1850 and 1900. Work on road construction was also taken up very seriously. A road from Bombay to Agra was commenced in 1840 and by 1853, the G.T. Road had been extended from Banaras to Delhi. Various parts of the country were connected by these roads and rail lines. This facilitated internal trade to a large extent. Every railway station became a Mandi or an export centre. (b) In the field of transport another development was the opening of the Suez canal in 1869. It cut sea route between England and India by 3000 miles and shortened the period of journey by 36 days. The shipping industry in England also saw revolution of 1870. The old slow moving vessels were replaced by steamships. All these developments in the field of transport resulted in widening of the extent of market at the national as well as international levels.

**(2) American Civil War :** The American Civil War clearly and dramatically revealed a break in the economic isolation of India and brought about the commercialisation of agriculture. The war transferred the British demand for cotton from America to India. The exports of cotton at once jumped from 5 lakh bales in 1859 to 12.6 lakh bales in 1865. The exports of rice, wheat and other food grains also increased. Although the British demand for Indian raw cotton fell after off the civil war was over, it was largely compensated by the increase in domestic demand. This growing demand for Indian agricultural produce helped in the spread of the tendency toward commercialisation. The area under commercial crops began to be extended with different parts of country specialising in particular crops.

**(3) Money Economy :** Money economy flourished in India in all the spheres. During this period cash assessment for land revenue started to be introduced in place of product assessment. Rent in this kind was being substituted by rent in cash. Formerly, land revenue was realised in kind and thus the peasant was not bothered about getting cash by selling its produce in the market. Now that the payment was to be made in money form, he had to seek modes to sell his product and obtain cash. The farmers faced some problems finding a market for the produce. The market problem was solved by which the "Home Charges" were paid.

**(4) The British Patronage :** The British rule in India was so strong that without their patronage, nothing could be established by itself. Rapid growth of commercial crops and the conversion of barter economy into a money economy was welcome to the British authorities. Rather the very survival of the company was linked with export of Indigo, tea coffee, hides, skins and opium. These industries were the mostly in the hand of the foreigners. Besides the middle of the 19th century, Britain itself had passed through the industrial revolution. British industries were the most developed in the world. The manufacturers were unable to survive without raw materials and thus the government met by providing every facility for their production and export from India. This also explains the rapid development of irrigation facilities and the railways network. To pay for the higher water charges, the farmers had to grow costly and cash corps like sugar cane and cotton.

Basically, commercialisation trend was appreciated by nationals but it was commanded by the hidden motives of Britishers. Whatever they promoted was for their own benefits. They launched the system of commercial crops not because they wanted to revolutionise Indian agriculture but because it served their industries. The development of railway and irrigation was also undertaken to facilitate the movement of troops and material for defence and strategic purposes.

**Self check exercise**

1. What do you mean by commercialization of agriculture?

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2. What are the reasons for the commercialization of the agriculture in India?

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**1.2.5 Effects of commercialisation on Agriculture :** Commercialisation had far reaching effects on India's social and economic structure. On the economic front, the most **devastating effect was on handicrafts**. The development of transport and the break in village self-sufficiency exposed the people to outside world and new varieties of machine-made goods. As a consequence, millions of artisans were uprooted from their traditional occupations. In most cases, they joined agriculture only and added to the pressures on land. This pressure on land should have worked as a catalyst in the agricultural progress but in the words of Thorner, agriculture was held down by this “built–in–depressor”. The land systems which the British had in the country till 1840, enabled the land holders to take a more than substantial share of produce of the soil.

With the commercialisation of agriculture, food situation in the country also depressed. The farmers now preferred cash crops than subsistance crops. This had an adverse **effect on the food supply** in the country as can be seen from the fact that the production of commercial crops rose by 85% while that of food fell by 7% during the period of 50 years between 1895-96 to 1945-46.

Commercialisation also aggravated the situation of **rural indebtedness**. Thus village money lender became more important because the farmers need credit for the cultivation of cash crops. Besides the new systems of land tenure and land revenue and the new legal procedure opened up a **golden age for the money lender**. The demand for his service became an inescapable part of the village economy. A rapid rise in land values from the middle of the 19th century further encouraged the money lender to expand and broaden his operation. Apart from high rates of interest, he now began to dispossess the farmers of land and rent it out.

Thus, the commercialisation of agriculture and development of market economy not withstanding the gains, it conferred on producers of special crops in certain areas, brought deterioration the overall food situation in the country by exporting food grains, raising its prices and discouraging cultivation of inferior food grains. In addition, the commercial revolution strengthened the trends which the new land systems had set in motion.

Consequently, the gulf between the land lord and tenant widened.

**Self check exercise**

3. Is it true that commercialization of agriculture was one of the causes of trends towards market economy?

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### 1.2.6 Transformation of Labour into Commodity :

The occupational distribution of population is an index of the stage of economic development of a country. As countries become developed economically a larger percentage of population gets engaged itself in industry, commerce and transport services while the proportion in agricultural activities declines.

But in India, the trend has been reverse. Every census revealed that although the population increased, the percentage of workers in tertiary sectors declined. Not only in tertiary sector, the overall percentage of working force in India showed a decreasing trend. The bulk of our population remained engaged in agriculture. The relative as well as the absolute share of agriculture in total employment consistently rose during in twentieth century. The slight decline in 1931 is more apparent than real because in the Census of 1931, the female population related with agriculturist were entered as engaged not in agriculture but in domestic service.

Another feature of labour force in India was that most of the addition made in the labour was absorbed in agriculture only between 1901-1911, the total work force increased by about 10 millions and the numbers engaged in agriculture also increased by the same number. This would suggest a very progressive agriculture but the fact is that more and more persons were engaged in agriculture because it was as a family business. It had to provide employment to all additional members when there was no alternative avenue for employment.

However, within the field of agriculture, hired labour became popular after 1870, when handicrafts and other village occupations declined. The village artisans had to close down their century old crafts and join force of agricultural labour. With urbanisation more and more people shifting to the towns, there was a need for supplementing agricultural labour force. But the new entrants to the labour force were just casual labourers and worked for subsistence. They were not ready to leave the villages and offer their services purely as commodities against money wages. Rather, the share of industry in labour force declined form 17.5% in 1911 to 15.5% in 1931 and 16.3% in 1941.

**1.2.7 Land as Commodity :** Alongwith the labour land is another very important factor of production. In the ancient periods, land and labour were assumed to be the only source of production and capital and entrepreneurship were conspicuous by their absence and ignorance respectively. Before the advent of the Britishers, Indian economy was self-sufficient, as has repeatedly been said earlier also. The village was one unit which consumed most of the things it produced and there was no felling for trading with outside world. The craftsman produced handicrafts which were used by the villagers. The village community, within its domain administered justice, settled and divided occupations, and distributed the produce of the land. In short as Elphinstone says, “those communities contained in miniature, materials of state within themselves and were almost sufficient to protect their members if all other governments were withdrawn.”

Thus village society was divided into three broad classes : (1) the cultivators (2) the artisans, and (3) the menials. The cultivators were engaged only in tilling the land. There were two types of artisans, one whose services were required by everybody as a routine, e.g., blacksmith, carpenter, barber, shoemaker, etc. and secondly such artisans who had their independent business. The routine artisans and the menials were common servers of whole village and the obligation of remunerating them was borne by the village community as a whole which discharged it by permanently assigning to the artisans plots of land belonging to the community and by, gift of fixed measure of grain at harvest time. There was thus a very limited scope for exchange and consequently the market was limited. As regards, arrangement of village land was divided into three parts : areas set apart for habitation, for cultivation and for pastures. According to R.K. Mukherjee, the general principle was, "to each family a home instead and plot of arable land parceled out of a common soil to the community the meadow and waster." A point to be noted that the individual family was the possessor and not the owner of the arable land which was the property of the village community. There was, thus ownership but joint ownership by bodies of men was the rule, several ownership by individuals was exception. The family holding of the arable land was not allowed to be transferred either to another family of the village or to any stranger. In other words, under the village community system, land was never used as a commodity to be sold and brought. Crop or no crop, famine or prosperity the arable land of the village stood there and none could take possession of another's plot. In such a system, there was little scope for the development of land holder-share cropper of supervising farm agricultural – labourer relationship.

**1.2.8 Summary**

As the economy grew historically, political and economic forces compelled out simple farmers to behave as required of them. The British rule brought certain fundamental changes in the economic life of the country. The exposure of the villagers to the outside life, urbanistion and the erosion of the artistic skills made the villagers to reallocate the possession of land. Land became commodity and it started being sold and purchased. The system of taxing the land in its various form like Zamindari, Ryotwari and Mahalwari gave a stronger control over land to the tax collectors, Nawabs, and the village money lenders who helped the farmers in paying their taxes. Gradually, the commercialisation of agriculture, deindustrialisation of India, and urbanisation exerted more and more pressure on land and these days it has become the safest commodity to trade in.

**1.2.9 Short answer type questions**

**Write short notes on**

i. market economy

ii. British patronage

iii. Labour as commodity

iv. Land as commodity

### 1.2.10 Long answer type questions

i. Bring out some factors responsible for commercialization of agriculture during the British period.
ii. What do you understand by market economy? Discuss some of its features.
iii. How far transformation of labour into commodity was responsible for commercialization of agriculture?

### 1.2.11 Recommended books


| | | |
|---|---|---|
| 1. D.R. Gadgil | : | The Industrial Evolution of India in Recent Times |
| 2. Rudar Dutt | : | Evolution of the Indian Economy |
| 3. K.S. Gill | : | Evolution of the Indian Economy |
| 4. G. Kaushal | : | Economic History of India |
| 5. R.C. Dutt | : | Economic History of India |
| 6. S.C. Kuchhal | : | The Industrial Economy of India |
| 7. S.C. Aggarwal | : | Dynamics of Labour Relations in India |

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**Last updated on: 5 July 2023**

## DEMOGRAPHIC DEVELOPMENTS IN INDIA

**Structure of the Lesson :**



### 1.3.1 Objectives of the lesson:

In this lesson we will study about demographic situation in India during the British regime. We will also get information about the studies of demographic transition, trends of population growth of India.

### 1.3.2 Introduction :

The importance of the study of demographic development can neither be overemphasized nor be ignored. The analysis is vital from the point of view of economic development. It becomes more important because human beings are not only instruments of production but also ends in themselves. It, therefore, becomes imperative to know about the various facts of demographic development in India, viz., the latest theory of population growth., density of population, rural urban ratio and sex-composition etc. In order to study demographic developments we will have to analyse theories of demographic transition.

### 1.3.3 The Theory of Demographic Transition :

Since time immemorial, the question of population has continued to agitate the minds of scholars and thinkers. Several theories have been propounded to explain the phenomenon of size and growth of human population. But the last in the series is the theory of demographic transition. It will, therefore, be useful to study India's population growth in the format of demographic transition. The demographic transitions is the relationship between fertility and mortality, i.e., between the birth rate and the death rate. explained with the help of social change and development.

Unlike other population theories, the theory of demographic transition is based on the actual demographic experience of Western countries, which have moved from a condition of high mortality and high fertility with consequent sluggish growth of population to condition of low mortality and low fertility, once again leading to a slow growth of population. Earlier, demographers such as Landry (1909) and Warrant Thompson (1929) had attempted to construct a typology to describe the transition from conditions of high mortality and high fertility to condition of low mortality and low fertility. In 1947, C.P. Blacker attempted to identify the following five phases of the demographic transition :

(i) *The high stationary stage,* characterised by the high birth rates and high death rates;

(ii) *The early expanding stage,* with falling birth rates but rapidly decreasing death rate;

(iii) *The late expanding stage,* with falling birth rates and slowly decreasing death rate;

(iv) *The low stationary stage,* with low birth by rates balanced by the equally low mortality; and

(v) *The declining stage,* with low mortality and death exceeding births.

However, none of these demographers made any attempt to explain the changes either in the fertility or mortality. It was FRANK NOTESTEIN who, in 1945 presented the theory of demographic transition in an almost mature form with engineering precision. In that sense he may be regarded as the father of the theory of demographic transition. Notestien characterised three types of population growth according to their stage of demographic evolution.

*(i) First Stage of Demographic Transition or what Notestein calls as the stage of "high growth potential but a low actual growth".* Here " mortality is high and variable and is the chief determinant of growth while fertility is high and has thus far, shown no evidence of a downward trend. Rapid growth in population is to be expected as soon as technical developments make possible a decline in mortality." Thus, in the first stage of population growth, both the birth rate and death rate are high, which keep the growth rate of population low. This stage is associated with the low level of income when an economy is under developed and agriculture is the main occupation.

Plenty of factors are responsible for the high birth rate. Rapid illiteracy, early marriage, iron–clad social traditions, abysmal ignorance of the family planning techniques etc., all contribute to the high birth rate. The cost of rearing the children is almost nil. They start participating in their parent's work at an early stage and boost up their family income. They are also the traditional source of help and security account of grinding poverty, inadequate and unbalanced diet, primitive sanitation and near absence of medical facilities. Famines and epidemics are vary frequent and take a very heavy toll of human lives. Thus in such a society, high birth rate is balanced by high death rate and this keep the growth of population either stagnant or very slow. Before 1921, India's population was in the first stage of demographic transition.

*(2) Second Stage of Demographic Transition* – "The stage of transitional growth". Here birth and death rates are still high and growth is rapid but the decline of the death rate is well established. This is a stage of rapidly falling death rate and high birth rate. During the second stage, a country becomes a little more developed and as a result, there is an appreciable reduction in death rate due to (a) greater and more availability of food supplies, (b) more effective control of diseases and epidemics and (c) spread of life saving drugs and medicines. While the death rate is declining, the birth rate continues to be high because birth rate depends on social customs, beliefs which do not change fast. Accordingly, there is a very rapid increase in population and strain on the economy of the country and it eats up the fruits of economic growth. The living standard of the people, may actually decline as the population out spaces production.

Thus, in this stage the growth rate of population becomes very rapid. This constitutes big stumbling block in the path of economic development. The problem of development becomes, more complex because of ever surging population.

*(3) The Third Stage of Demographic Transition – "The stage of incipientdecline"* Where "fertility had fallen at the replacement level or those approaching this stage." Economic development further changes the face and character of the economy from an agrarian to a partially industrialized one. With growth of industrialization population tends to shift away from rural areas towards industrial and commercial centers. According to COALE and HOOVER, "Growth of urban population along with the development of economic roles for woman outside the home, tends to increase the possibility of economic advantages of large family. One of the features of economic development is typically increasing urbanisation and children are usually more of a burden and less of an asset in an urban setting than in a rural one. "Further, because of the expansion of education, people change their attitude, give up traditional beliefs and old values. There is a distinct preference for adopting family planning techniques with the view to containing the size of the family. On the other hand, the death rate having fallen to a certain level cannot possibly fall further because no body can escape natural death. In this way, the birth rate, after falling rapidly comes near to the level of death rate. A new equilibrium is established between the low birth rate and low death rate. As a result, population of a country grows at a very slow rates

if at all it rises; Thus, the characteristics of the third stage are low birth rate, low death rate, small family size and low growth rate of population.

These stages reveal the transformation of a primitive high birth rate and high death rate and low income economy into a low birth rate and low death rate and high income economy. This shift is caused by the development of new technology and accumulation of capital. How much time is needed to move from the second stage of 'population explosion' to the third stage of slow and stable growth ? Nothing can be said a priori. It all depends upon many factors such as the initial birth rate, the shape and rate of economic and social change, attitudes of the government and the people etc. In some western countries, it took about 30 years for birth and death rates to fall to present low levels. Japan, however, was successful in cutting in half the birth rate in very short period of time.
India has to go a long way before the targets can actually be realised.

**1.3.4 Trends in India's Population Growth :**

India is the second largest populated country in the world with the total population estimated by the census 2001 about one thousand and twenty seven million. This forms about 14 percent of the total population of the world. In other words, every seventh person on earth is an Indian. India on the other hand, had got only 2.4 percent of the total land area in the world. China with about 20% of the world population had about 7% of the land area; the U.S.A. maintains only 6% of the total world population on about 7% of the total area; the Common Wealth of Independent States (C.I.S) have 7% of the population and 16% of the land area. It would thus be true that India has been seriously handicapped in that a large proportion of the world population is found jampacked in a small geographical area.

Table-1 shows the growth of India's population since 1901. **Table-1**

**Growth of Population in India (1901-2001)**

| Census year | Population in millions | Percentage change during the decade |
|---|---|---|
| 1901 | 236 | |
| 1911 | 252 | + 5.7 |
| 1921 | 251 | - 0.3 |
| 1931 | 259 | + 11.0 |
| 1941 | 319 | + 14.2 |
| 1951 | 361 | + 13.3 |
| 1961 | 439 | + 21.5 |
| 1971 | 548 | + 24.8 |
| 1981 | 685 | + 25.0 |
| 1991 | 846 | + 23.86 |

| | | |
|---|---|---|
| 2001 | 1027 | + 21.34 |
| 2011 | 1211 | 17.64 |

**Source :** Office of the Registrar General of India

A glance at the figures indicates that upto the year 1921, the year of the great divide the population of India rose very slowly. It was a stage of stagnant growth. As a matter of fact, India's population had declined during the decade 1911-21. This was because of the visitation of frequent famines and infectious diseases claiming a heavy toll of human lives. Since 1921 however, it has continued to rise unabatedly and in 1991 it stood at 846 million and in 2001 it was 1027, 015, 247. Which increased to 1,21,01,93,422 in 2011 with decaded population growth of 17.64 percent during 2001-2011.

It is, thus, clear that India's population is not only large in absolute size; but it is also growing at an alarming pace. The population growth, instead of being an asset, has become one of the most important constraints of India's development. The country is in the grip of "population explosion". In the light of the above argument we will like to answer the following questions. How do we account for such a behavior ? Why is that before 1921, the population rise was or regular and very slow and why after that it had been so rapid and continues. To understand and answer these questions, we must analyse the factors which effect the growth of population in a country.

The rate of growth of population in a country is function of (i) fertility, (ii) mortality, and (iii) migration. However, in the Indian context, migration has not played any significant role. Hence it is the variation between fertility and mortality which provide an explanation of the acceleration of the population growth explained in India. The birth and death rates for India are given below in Table-2.

**Table-2**
**Crude Birth Rate and Death Rate in India**
**( Per 1000 population )**

| Time Period | Crude Birth rate | Crude Death rate | Natural growth rate |
|---|---|---|---|
| 1951 | 44.0 | 22.4 | 21.6 |
| 1961 | 42.3 | 19.4 | 22.8 |
| 1971 | 39.4 | 16.9 | 22.5 |
| 1981 | 36.0 | 13.4 | 22.7 |
| 1991 | 31.4 | 10.5 | 21.0 |
| 2001 | 26.7 | 8.6 | 18.2 |

| | | | |
|---|---|---|---|
| 2011 | 20.9 | 7.3 | 13.7 |
| 2016 | 18.5 | 6.6 | 11.9 |
| 2021 | 16.4 | 9.4 | 7.0 |

**Source:** World Population Prospects – Population Division – United Nations

The table-2 clearly shows that the birth rate in India was around 39.4 per thousand in 1971 compared to Australia (where it was 20.5 per thousand), Japan (where it was 18.8 per thousand), U.K. (where it was 16.2 per thousand), Sweden (where it was 13.6 per thousand) and West Germany (where it was 13.6 per thousand). India's birth rate is well right twice as high or even more. However, the disquieting feature is that it has remained almost stable for the last 80 years or so with small variations. The situation regarding mortality is quite different. In the beginning of the century, the death rate was as high as 43 per thousand. It was not abnormal as poverty, illiteracy, early marriage, lack of medical facilities, frequent famines and epidemics etc. reigned supreme in the country at that time. But with the passage of time, the death rate started falling. The fall was very rapid after the independence and that is why the figure at present is 9.4 per thousand according to the figures released by United Nations, which is about one fourth of what it was 90 years ago.

It will not be an exercise in futile to enumerate the list of various factors which lead to high birth rate. De'Castro in his book 'Geography of Hunger', has stressed the close nexus between poverty and high fertility. According to him, "there is an intensification of the reproductive capacities in chronically starved people which develop through a complex process involving both physiological and psychological factors.

Similarly, religious and social attitudes coupled with ignorance and non-availability of birth control devices contribute in big and substantial way in keeping the birth rate at a very high level. The next result of all this is the rapidly increasing population.

(a) In the beginning of the century, both the crude birth rates and death rateswere very high. The difference between the two was very small. Hence the natural growth rate of population during the period 1901-1921 was slow.

(b) The crude death rate registered a marked decline during 1921-31 and ever since has continuously been declining. During this period, there was hardly any significant fall in the birth rate. As a result, natural rate of growth of population picked up and India's population increased very rapidly.

(c) During 'seventies' and after, a stage was set for transition to the third phase and birth rate, at last has shown a downward trend. If the trend is maintained, the natural rate of growth can be slowed down in the years to come. The moral, therefore, is that the rise in population has been caused by the fall in the death rate and not by a rise in the birth rate and if the rate of population growth is to be reduced efforts will have to be made to quicken the pace of reduction in the birth rate.

**Self check exercise**

1. Explain second stage of demographic transition.

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2. What is birth and death rate?

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## Density of Population :

The spatial or geographical manifestation of the contemporary phenomenon figuratively called the "population explosion" is really a reflection of the rapid growth of population density. The term density of population implies the average number of persons living per square km. of land are at a particular period of time.In other words,

$$\text{Density of population} = \frac{\text{Total polulation of the country/region}}{\text{Total land area of the country/region}}$$

The concept provides very useful information about the land man ratio. For instance, on March 1, 1981, population of India was estimated at 684 million while the area was 3.28 million sq. km. Resulting in a density of ____684 = 208 per sq. km. Similarly, we can calculate density for census, i.e. 1991 taking total3.28 population as 846 millions, it was 267 per sq. km. And according to the census 2001 it was 324 persons per square kilometer. This is known as arithmetic density, a simple average which does not take into account either the clustering of people in large cities like Bombay, Calcutta and Delhi or the uninhabited desert of Kutch. The arithmetic density is a crude measure and gives very broad picture of actual situation. In is particularly misleading for countries which have only a few centers of concentrated population, the rest of the area being virtually uninhibited. A Striking example of such a country is Egypt, where millions are crowded in the Nile delta, where the rest of the country is very sparsely populated. The measure of arithmetic density may be re-dillined by relating the total population not to entire territory of a country, but only the cultivable land that is available. This is known as "physiological density" . The suitability of this measure may be illustrated by once again citing the example of Egypt, where the arithmetic density for the country is 90 per sq. mile while the physiological density is about 3500 per sq. mile in the calculation of agricultural density urban residents are excluded. Similarly, we can have settlement density, urban density, rural density etc. The type of data that are required for the calculation of such refined measures are, however, usually not available in most of the countries.

According to 1991 census, the arithmetic density of population in India was 267 persons per sq. km and according to the provisional census report of 2001 it is 324 person per sq. km. When land area remaining constant and the country's density of population is rising 103 in 1941, 117 in 1951, 178 in 1971 and 208 in 1981. Thus in the last 70 years density of population has gone up by two and a half time. Again in 2001, the density of population futher increased to 324 persons per sq.km. which indicates an increase of 23.6 percent with average annual growth rate being 1.93 percent in India population density of population as per census 2011 was 382 persons, per sq.km.

**Factors Affecting Density of Population :**

Although for the country, as a whole, arithmetic density of population was 267 per sq. km. Yet is very unevenly distributed. According to the 1991 census, Kerala 747, west Bengal 766, Bihar 497, Tamil Nadu 428 and Uttar Pradesh 471 are some of the high density population states while Madhya Pradesh 149, Rajasthan 128, Himachal Pradesh 92 and Nagaland 73, have a very low density. Delhi has the highest density of 6319 persons per sq. km. And the lowest density was recorded in case of Nagaland.

Several factors influence the density of population. They can be grouped into 3 broad categories (1) Geographical factors; (2) Economic and social factors and (3) Demographic Factors. The physical conditions such as climatic, land forms in terms of altitudes, graphical determinants of population distribution. The social and economic factors include social policy being pursued. Demographic factors like fertility, mortality and migrations, which themselves depend upon geographical, social and economic factors, have their own role in determining the density of population distribution. The social and economic factors include the type of economic activity being carried, the type of technology being employed and the social policy being pursued. Demographic factors like fertility, mortality and migrations, which themselves depend upon geographical, social and economic factors, have their own role in determining the density of population.

**Density of Population and Economic Development :**

Is there any direct relation between the density of population and economic developments of a country ? The answer is that it is not necessarily so. One cannot derive any information regarding the level of economic development of a country from the density of population. There are countries like Japan which have a very high density (303 per sq. km. ) and a high level of economic development and there are countries like the USA (12), Russia (11), Canada (2) and Australia (2) which have a low density but a very high standard of economic development. The density of population cannot be treated as an index either of poverty or of prosperity of a county. For economic progress, factors like natural resources, capital stock, skilled labour, scientific use of factor of production etc. have also to be taken into account.

**The Sex Composition :**

Sex and age are basic biological attributes of any demographic group and affect not only its demographic but also its social, economic and political structure as they influence birth and death rates, internal and international migration, material status composition, man-power, the gross national product, planning regarding educational and medical facilities etc. from the sex-age distribution of any population estimates of school age population may be made and, on that basis, one may arrive at any estimate of number of educational institution, teachers, playgrounds, text books, etc. which will be needed. Similarly, estimates of number of votes, entrants in the labour etc., may be made.

The sex ratio of a population may be expressed by the number of females per 1000 males. This definition is followed all over the world. The sexratio of total population at a point of time is known as the "overall sex ratio."

During 1991 census there were 927 females for every thousand of males and according to the latest census of 2001 this sex ratio is 933. Sex ratio as per 2011 census is 940 which indicates a slight improvement in the status of women, though by a margin of 7 points. This seems strange when one finds that in the Western countries the boot is on the other leg. The most disquieting feature is that in India the proportion of female has been falling during the last 90 years except in the decade 1971-81.

This is evident from Table-3.

**Table-3**
**Sex-Composition 1901-2011**
**(Females per Thousand Males)**

| Year | Females | Year | Females |
|---|---|---|---|
| 1901 | 972 | 1951 | 946 |
| 1911 | 963 | 1961 | 941 |
| 1921 | 955 | 1971 | 930 |
| 1931 | 950 | 1981 | 935 |
| 1941 | 945 | 1991 | 927 |
| 2001 | 933 | 2011 | 940 |

No one satisfactory explanation can be given for this phenomenon. However, part of the explanation is that in India girls are a neglected lot. As a result, mortality with respect to female is high. Secondly, the evil effects of early marriage lead to a very large female mortality in the reproductive age of 15-19 years due partly to inexperience to handle maternity problems and partly due to incapacity to bear the burden of motherhood. Thirdly, due to purdah system etc., women are not properly counted in the census. Another important thing about India's male - female ratio is that it differs widely in different parts of the country. The explanation for this is in the fact that a good proportion of males shifts to urban areas in search of employment leaving their families in the rural areas. This may be due to inadequate housing facilities in the urban areas as also due to the necessity of the females remaining in the rural areas to attend to agriculture and animal husbandry.

**Age Composition :**

Information regarding age composition of population can help us to know about the size of labour force, number of entrants in to educational institutions; number of votes etc. It demonstrates the dynamics of the labour force over time and suggest to social significance of labour change in size and composition.

According to Prof. Sandbward, a population with about 40% children is a fast rising population; a population with 30% children is stable, while a population with only 20% children has a tendency to decline. In India, this population (0-14 years) is around 40% which is a pointer to the fast rising population of the country.

**Self check exercise**

3. Write notes on
   a. Composition

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______________________________________________

b. Density of population

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**Rural-Urban Population :**

It is truism that economic development is associated with the growth of urbanization. Any demographic study of urbanization is mainly concerned with the level and tempo of change in the distribution of the population between urban and non-urban areas. Such a study is important because it provides the basic information which enables us to formulate development plan and to implement development programmes.

Some of the criteria that are used to determine the urban status of an area are (1) size of population, (2) Prominent economic activity, (3) Density of population and (4) Administrative function or structure e.g., type of local government. The definition of "urban area" adopted in 1971 is as follows :

(i) a minimum population of 5,000.

(ii) atleast 75% of male working population in non-agricultural activities and

(iii) a density of population of atleast 4000 person sq. km.

It is important to distinguish between the terms "Urbanisation" and "Urban population growth". The important point of distinction is that "urban population can grow with out having an increase in the level of urbanization if the rate of growth in the non urban population is equal to or greater than the growth in the urban population." H.T. Eldrige treat urbanisation as process of population concentration and identifies two elements in the process : (i) "The multiplication of points of concentration and (ii) The increase in the size of individual concentration." The simplest measure of urbanization is calculated as follows :

$$PU = \frac{U}{P} X100$$ where

PU = percentage of urban population

U = Urban population

P = Total population

**1.3.5 Trend Towards Urbanization in India :**

The population of India's urban centers has grown in large part by immigration of left over people from India's rural areas. In traditional India, there were few cities of substantial size carrying on the functions of the modern city. Calcutta, Bombay, Delhi and Madras are manifestations of British entry into the

Indian sub-continent and the need for the British to establish facilities supporting commerce, export, exchange and trade.

Although India is still a land of villages, there is a clear-cut trend towards increasing urbanization. Table-4 brings out this fact clearly.

**Table-4**
**Trends in Urbanization**
**(Percentages of Population)**

| Years | Rural | Urban |
|---|---|---|
| 1921 | 88.8 | 11.9 |
| 1931 | 88.0 | 12.2 |
| 1941 | 86.1 | 13.8 |
| 1951 | 82.7 | 17.3 |
| 1961 | 82.0 | 18.0 |
| 1971 | 80.1 | 19.9 |
| 1981 | 76.3 | 23.7 |
| 1991 | 74.3 | 25.7 |
| 2001 | 72.27 | 27.73 |
| 2011 | 70 | 30 |

**Source :** Census of India, various issues.

Thus, percentage of urban population has increased from 11.9 in 1921 to nearly 25.7 in 1991 and 27.73 in 2001. While in the more developed countries, the "pull" factor has been important for accelerating the process of urbanization, in the less devloped countries, the "push" factors appears to be more important. It has been observed that because of difficult living conditions in rural areas of thee countries, people migrate to urban areas in the hope of finding a better life. Conditions of widespread poverty, indebtedness, unemployment and fewer opportunities for earning employment motivate people to leave rural area to settle in urban areas. Economic conditions in urban center are likely to provide comfortable life to them. Industrialization since 1921 acted as a "pull "factors whereas the Second world War wide spread occurrence of famines, partition of the country etc, acted as 'push' factor for urbanization.

### 1.3.6 Summary

The rate of growth of population in a country is function of (i) fertility, (ii) mortality, and (iii) migration. However, in the Indian context, migration has not played any significant role. Hence it is the variation between fertility and mortality which provide an explanation of the acceleration of the population growth explained in India. In order, therefore, to stem the ride of rural-urban stem, it is essential that the glamour and attraction of the town and cities be reduced by providing essential education, health, employment opportunities etc., in or around the villages.

**1.3.7 Short answer type questions**

(i) Explain main features of second stage of demographic transition i.e. the stage of transitional growth.

(ii) What is meant by the concept of density of population?

**1.3.8 Long answer type questions**

(i) Describe the theory of demographic transition. Do you think that every country must pass through all these stages of transition?

(ii) What are the trends of population growth during the British regime?

**1.3.9 Recommended books**


| | | |
|---|---|---|
| 1. D.R. Gadgil | : | The Industrial Evolution of India in Recent Times |
| 2. Rudar Dutt | : | Evolution of the Indian Economy |
| 3. K.S. Gill | : | Evolution of the Indian Economy |
| 4. G. Kaushal | : | Economic History of India |
| 5. R.C. Dutt | : | Economic History of India |
| 6. S.C. Kuchhal | : | The Industrial Economy of India |
| 7. S.C. Aggarwal | : | Dynamics of Labour Relations in India |

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Last updated on: 7 July 2023

# RURAL INDEBTEDNESS : PROBLEM, CAUSES AND SOLUTION

**Structure of the Lesson :**



## 1.4.1 Objectives of the lesson:

In this lesson we will get information about rural indebtedness, what is the extent of rural indebtedness, reasons for indebtedness.

## 1.4.2 Introduction :

Indebtedness, the greatest curse of the Indian peasant, is no new thing in India. From times immemorial, the Indian peasant is crushed by the cruel hands of the village money lenders. It is certainly one of the severest handicaps of Indian agriculture. In the absence of suitable and adequate credit facilities, the peasants sank deep in debt throughout the periods from establishment of British rule. Rather, during the British period, this problem acquired great significance.

**1.4.3 The extent of rural indebtedness:** The systematic and authentic records and estimates of rural indebtedness are not available before 1875. It was the Deccan Riots Commission which for the first time, revealed that about 95% of the Indian farmers were in debt. The average debt per occupant of government land was estimated to be about Rs. 371. The Famine Commission 1880 found that 35% of the land holding class in the country was in deep debt, while another

35% also in debt, were in a position to redeem it. An enquiry conducted by Thomburn reveals that in 474 widely distant villages in the Punjab, the cultivators in 126 villages were hopelessly involved in debt, in 210 village they were seriously involved and only in 138 village the burden was comparatively light.

The total indebtedness of 474 villages was estimated at Rs. 47.3 lakhs or roughly little over Rs. 15 per acre. William Crooke collected the evidence in U.P. and Col. C.K.M. investigated the extent of indebtedness in Rajpurthana. They also concluded that the situation in these provinces was also no better. Further, assuming an average rate of interest of 183.4%, he calculated the annual interest charges as Rs. 56 crores or 1/ 9 of the entire agricultural income in India.

Some other authorities have also tried to estimate the extent of rural indebtedness during the British rule. Although their estimates were for different regions of the country, they provide a fair index of its magnitude.

| | |
|---|---|
| 1901 | The Famine Commission estimated that only less than 20% of the cultivators were free from debt and the remaining were indebted to greater or smaller extent. |
| 1911 | Sir Edward Maclagan estimated the extent of rural indebtedness in India as Rs.300 crores. |
| 1925 | Sir M.L. Darling worked out the extent of rural indebtedness in Punjab and on the basis of these figures estimated it to 600 crores for India as a whole. |
| 1926 | The Central Banking Committee, basing itself on the Provincial Banking Committee's reports put the figure at 900 crores. |
| 1927 | P. J. Thomas estimated the debt in British India, excluding some states, at Rs. 1200 crores. |
| 1928 | The Agricultural Credit Department of the Reserve Bank of India put the figure at Rs. 1800 crores. |

It is evident from the estimates reported above that the extent of rural indebtedness has continuously been increasing during the period. The Great depression aggravated the burden of rural indebtedness during this period because the farmers were not getting fair remuneration for their products. It is also felt that during the second world war, when the prices were increasing, the farmers got food returns on their in investment but even this upswing did not help much to reduce their burden. Certain independent inqury during the period reveal that the war had only slightly reduced the amount of the debt though it was substantially higher than the 1950 level.

B.V. Narainswamy Naidu found that "notwithstanding favourable wartime factors, the rural debt of the Madras Province stubbornly stayed at the high level of about Rs.150 crores estimated in 1930". Gadgil Committee in its "Report of the

Agricultural Finance Sub-committee of the Government of India" revealed that 'the increase in the level of agricultural costs had mostly caught up with increase in the prices of agricultural products and the extent of indebtedness did not increase. The fact is that only a small proportion of families owing bigger holding had benefited from the war and post-war high agricultural prices.

In the post-independence period, many systematic studies have been taken up to assess the problem. Besides the government agencies and the surveys of the R.B.I., some private estimates were also made. Regionwise, the Eastern belt of the country held the lowest position in the burden of debt per family while the state of Madras, Punjab and Mysore occupied the top position.

**Self check exercise**

1. What is rural indebtedness?

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2. Explain the extent of indebtedness at the time of British regime.

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### 1.4.4 The Causes of indebtedness :

The physical extent of rural indebtedness during the British period was not a matter of concern as much as its nature was. If a loan is raised to increase the productivity of land, it is always welcome; but the tragedy in India was that people used to raise loans for extravagance and unproductive activities. As early as 1895, Nicholson had found that only 1.3.% of the registered loans Madras were due to land improvement. Darling found that only less than 5% of the loan in Punjab were raised for land improvement. The Deccan Riots Commission (1875) rightly remarked that "undue importance had been given to the expenditure on marriage and other festivals….this expenditure forms an item of some importance in the debt side of Ryot's account but it rarely appears as the nucleus of his indebtedness". Some of the important causes of this indebtedness are as follows :

1. **Poverty :** Poverty and indebtedness are related to each other in a various way. Notwithstanding V. Anstey's view that, "indebtedness has not been so much the result of poverty", there is overwhelming evidence to prove that poverty was more a cause of indebtedness than its result. Indebtedness did not leave anything with the farmer at the time of harvest. Even in good harvests, the peasant could not expect more than

subsistence. During had crops, he was solely dependent on debts to maintain his family.

2. **Inheritance :** Most of the farmers inherited their debt from their forefathers along with their property, Though the Ryot would seek legal protection against the debts of his forefather, but generally it was not done because of social pressure and the powers wielded by the zamindars.
3. **Accumulation of Interest :** The rates of interest charged on the debts were very high. In certain cases, it was as much as 100% whereas 20 to 40% was the normal rate. The high rate made the situation worse and the peasant was not able to pay the interest alone, without redeeming any amount of the loan. The farmers paid large amounts of money to the lenders and it was fully moped up by high interest and the malpractices followed by the money-lenders tend to perpetuate the indebtedness.
4. **The Civil Laws :** Before the establishment of the civil courts in India, the native government did not give any assistance to the money-lenders to recover the loans from the farmers. But the civil courts in India started protecting the interest of the money –lenders in providing them legal remedies, the rigidities and the technicalities of the civil procedures were not understandable to the poor and illiterate farmers. The Indian Contract Act and the new Civil Procedure Code were also in favour of the money-lending class.
5. **Collection of Land Revenue :** Some historians maintain that the rigidity in the collection of land revenue is the main reason of the starting of rural indebtedness. The revenue rates were very high and most of the times it was collected before the harvest. The poor farmers did not have any option but to borrow money to fulfil their revenue obligations.
6. **Other Reason :** Besides the factors listed above, the re were other reasons also which accentuated the miseries of the cultivators regarding finances. The decay of the cottage industry in the villages stopped any other supplementary income to the farmers to meet their sudden and extraordinary requirements. High rate of mortality among cattle during the famines and otherwise also, deprived the farmers of their subsidiary occupation and required heavy expenditures which the farmers made by raising loans.

The problem of rural indebtedness should be evaluated not only in terms of its magnitude in financial terms, but in terms of its social and moral consequences also. Rural indebtedness harmed the farmers continuously and recurringly. Most of the farmers raised the loan with the idea that it will be paid in a short period; but accentuated interest amounts did not allow the loan to be reduced. There were cases, when after paying back to the money-lender for twenty years, the principal amount stood as it was twenty years ago. The whole payment was adjusted against interest.

Ultimately, the farmer, after suffering for his life time or sometimes generations together had no option but to hand over his property to lender. Land once pledged was rarely redeemed. This transfer of land converted the farmer from land-owner to mere tenant. Many Commissions studied and reported this phenomenon but nothing was done. During 1866-1890, in Punjab, the cultivators sold on an average 9.19 lakh acres of land against their indebtedness.

The selling and transfer of land in the hands of money-lender did not help the farming as it resulted into fragmentation of holding. The moneylender was not a farmer himself and he did not use pieces of land in a productive manner. He employed the owners of the lands again to cultivate it but refused to give the cultivators the facilities which resulted into less production.

The worst effect of indebtedness was to reduce the peasant to the position of a serf. Having been dispossessed of his land, the agricultural labourers often mortgaged his personal liberty in exchange for small loans. They practically sold themselves to their masters.

P.J. Thomas in his book, The Problems of Rural Indebtedness made a right observation when he said that, "a society steeped in debt is necessarily a social volcano. Distance between classes is bound to rise and smoldering discontent is always dangerous." The exploitation of rural farmers by money-lenders created tension, anger and a feeling of revenge. Thus, indebtedness turned the Indian peasant into an "inefficient farmer, thriftless head of the family and on irresponsible citizen."

**Self check exercise**

3. How does poverty lead to indebtedness?

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4. What are the reasons of rural indebtedness?

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### 1.4.5 Government Measures to Tackle the Problem :

The problem of rural indebtedness was recognised by the government of British times also. Even the biggest supporters of British rural felt that this condition of the Indian farmers required some measures to be adopted by the government. The government of India before the great depression, took three types of steps :(a) preventive steps,(b) legal steps; and(c) supporting steps. Under the first category, the government tried to educated the people that they should not raise much loans for social ceremonies like marriage and deaths. Under the legal steps, the government improved the civil laws and allowed the debtors to pay the debt in instalments. The new C.P.C. exempted the debtor from arrest and their cattle and implements from being attached. A provision for insolvency was also made so that the peasant could start on a clean slate. In 1908 and 1916, laws were passed to restrict the right to mortgage, sell land in favour of the lender. Non-agriculturists were not allowed to buy land from agriculturists.

Under the third category, the government tried to supply loans to the farmers on suitable terms. The government did so, firstly through the Acts of 1883 and 1884, but these Acts did not work successfully. Cooperative Credit Societies were stared through the Acts of 1904. During the depression and after it, a series of measures were undertaken to deal with farmers' debts. Under the provincial autonomy, the Provinces adopted some of the measures. Dozens of Acts were passed, but these came largely after the depression. Besides, certain short-term measures like reduction in the burden of interest, some long term measures were also adopted. It was made compulsory that the money lenders should get themselves registered. They had to maintain accounts and give annual statements to debtors as also receipts for all payments made to them.

The popular Ministries formed in the wake of provincial autonomy resigned after about two years in office and they could not take necessary administrative measures to execute their schemes. The moneylenders, thus, remained by far the most important source of credit. To enable them to continue this function, they have been paid the reduced amounts through Land Mortgage Banks. The Banks could recover this from the farmers in installments. Co-operative Credit Societies should have been extended and strengthened to seize this opportunity.

### 1.4.6 summary

The problem of rural indebtedness should be evaluated not only in terms of its magnitude in financial terms, but in terms of its social and moral consequences also. Rural indebtedness harmed the farmers continuously and recurringly. Most of the farmers raised the loan with the idea that it will be paid in a short period; but accentuated interest amounts did not allow the loan to be reduced. There were cases, when after paying back to the money-lender for twenty years, the principal amount stood as it was twenty years ago. The whole payment was adjusted against interest.

Ultimately, the farmer, after suffering for his life time or sometimes generations together had no option but to hand over his property to lender. Land once pledged was rarely redeemed. This transfer of land converted the farmer from land-owner to mere tenant.

### 1.4.7 Short answer type questions

**Write notes on:**

i. Rural indebtedness
ii. Extent of rural indebtedness
iii. Causes of rural indebtedness
iv. Relationship between inheritance and indebtedness

### 1.4.8 Long answer type questions

i. What do you understand by rural indebtedness? List some of the estimates about rural indebtedness.
ii. What are the causes of rural indebtedness? Explain the measures adopted by the Government to overcome this problem during the British regime.

### 1.4.9 Recommended Books


| | | |
|---|---|---|
| 1. D.R. Gadgil | : | The Industrial Evolution of India in Recent Times |
| 2. Rudar Dutt | : | Evolution of the Indian Economy |
| 3. K.S. Gill | : | Evolution of the Indian Economy |
| 4. G. Kaushal | : | Economic History of India |
| 5. R.C. Dutt | : | Economic History of India |
| 6. S.C. Kuchhal | : | The Industrial Economy of India |
| 7. S.C. Aggarwal | : | Dynamics of Labour Relations in India |

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## ECONOMIC CONSEQUENCES OF BRITISH RULE IN INDIA

**Structure of the Lesson :**



### 1.5.1 Objectives of the lesson:

In this lesson we will study about the condition of the Indian economy during the British regime and economic consequences of the British rule in India.

### 1.5.2 Introduction :

The British rule in India was a mixed blessing. No doubt it created the necessary infrastructure for the development of the country, at the same time it raised certain barriers for the free play of the social, national, ethical and economic feelings of the masses of the country. It was for the first time, Indian leaders in 1870 started an intensive investigation into the economic ills of the country. On 27th July, 1870, Dadabhai Naroji read his famous paper on “The Wants and Means of India”, at a meeting of the society of Arts, London in which he posed the bold question : Is India at present in a condition to produce enough to supply all its wants ? This was followed by many such investigations by Bholanath Chander, Mahadev Govind Ranade, G.V. Joshi and R.C. Dutt.

**1.5.3 Condition of India Economy**

During the 19th century the economic condition of the peasants was not the same in all parts of India at the beginning of the 19th century. In the Bombay Deccan the ordinary peasant was almost all well off as his contemporary in England, while in many other parts of India on account of the depreciations of the bands of robbers and general unsettled conditions, his condition was the worst possible. The permanent settlement of Bengal had failed to protect the small peasant from the extractions of Zamindars.

The communication and transport system in India was very defective. In most parts of the country, roads as such did not exist and where they did exist their condition was very unsatisfactory. The Indus and Ganges, with their tributaries were the only river system that were navigable to any large extent. The effect of this lack of communication on the volume of export trade of a country was obviously important, but its effect on the internal trade was even more so. The internal trade of the country being in such a state that the prices in one part of the country had no relation whatsoever with prices in any other part. The fluctuation in prices especially of food grains were sudden and violent.

The predominance of agriculture was the main occupation also meant that the proportion of the urban population was very small. It was hardly 10 percent. Many of the so called towns were just overgrown villages. Most of the towns in India owed their existence to either being a place of pilgrimage like Allahabad, Banaras, Gaya, Puri etc. or they were the seat of court like Ahmednagar, Bijapur and Golconda, or the commercial depots like Mirzapur and Amritsar.

Industry in the town was not organised and planned as it should be. There were certain industries in almost all the towns but these depended on the nature of town. In Banaras, a place of pilgrimage we find the importance of brass and copper ware and bell metal industries, the wares turned out were largely sacred vessels and utensils used in worship. In all towns, depending for their prosperity on courts we find that the luxury industries were predominant. Thus the wire and utensil industry, weaving of fine textiles, embroidery, gold and silver work, ivory, wood carvings and many other artistic handicrafts grew in these towns. The stable products required by the masses in general were produced only in villages.

**1.5.4 Consequences of British Rule :**

With this background in mind, let us examine the consequences of British rule vis-a-vis certain aspects of the Indian economy.

**1.Destruction of Handicrafts :**

In the field of handicrafts, India had enjoyed a position of excellence for a long time. The calicoes of Bengal and Muslin of Decca and many other such commodities formed important items of the Indian trade in the trading days of the East India Company. The high quality of the artistic products had never been questioned. The chief industry in India at that time was textile handicrafts. The handicrafts were spread all over India. The Muslin of Decca, termed as 'shadow of a commodity' was the finest and best known of all these. In 1880, Muslin was still being produced in Dacca but its quality had deteriorated. It was an industry which was exclusively dependent on the courts.

Fine cotton fabrics of all kinds were next in importance in the Indian handicrafts. The cotton manufacturers were wide spread ranging from Lucknow to Ahmedabad and from Madras to Amritsar. The woolen and silk handicrafts were also quite important and artistic.

Besides textiles and woolen stuff, there was the metal work in Banaras, Bombay, Nasik, Poona, Sialkot and Lahore. The towns of Rajputana were famous for enameled jewellery and stone carving.

Thus, almost every big town in India at the time had some industries attached to its name. But with handicrafts every where, each individual craftsman was not a capitalist. He generally worked on order and worked on the materials supplied by his customer. But as far as possible the urban industrial units were trying to work in an organised manner and demand for their products was forthcoming. Till the beginning of the 19th century, these handicrafts were flourishing, but soon after they started declining. This declining became marked by about the middle of the century. The causes working for decline were numerous but the most important of them were emerging to be the result of British rule and their policies of

protection, discriminating against these handicrafts

With the establishment of an alien rule, influence, unfavourable to the existence of these handicrafts made their way not only in the British territory but in other feudal states also. The alien rule in its wake brought in India thousand and thousands of European officials and professionals who replaced the positions held by the nobles of the court in the old lines. The upcoming of this new class of European officials and hoards of tourists coming to India did not stop the demand for Indian handicrafts but their demand was much less than that of traditional nobles of the courts. More so these Europeans never believed the value of these artistic goods. They insisted for lower prices always. Such type of demand undoubtedly led to lower the artistic value of the goods produced.

Almost in every industry, the Europeans introduced new patterns and colour combinations which the traditional India craftsman could not understand. They laboured to copy assiduously, but produced occasionally bad copies of the original. This indiscriminate European patronage destroyed the standards all around.

The other class which was emerging as a substitute to the nobles was the new educated professional class. The new class might have been expected to patronize the handicrafts but their demand was not even as much as the demand for the Europeans. Instead, they turned their back on indigenous arts and adopted the

Western styles. They started pouring scorn on everything Indian. To follow the European fashions was the hallmark of enlightenment. But then it was perhaps natural for this class to act as they did; because it was a product of the British rule. The establishment of the British rule also affected Indian handicrafts by weakening the power of guilds which regulated trade and the quality of the materials used. Administration of material and shoddy and sloven workmanship became very common. This led to a decline in the value, artistic and commercial of the wares.

Beside the above mentioned reasons, other effects of British rule which caused the decay of handicrafts was the emergence of competition. In case of textiles and other related fields like dyeing, bleaching etc., this competition was becoming very severe. As far as course cloth was concerned, there was no significant effects but for the finer quality. Slowly, the demand for Indian textile decreased further but this decline in demand was not mainly because of competition but because of changes in the tastes of the consumer.

All these factors alongwith some others contributed to the decline of Indian handicrafts. This decline was very rapid. Some of the crafts were completely dead within a span of ten years only.

**Self check exercise**

1. What were the features of Indian economy before the British rule?

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2. What were the causes of destruction of handicraft during the British regime?

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**2.The Traditional Economy :**

A very important economic consequence of the British rule was the transformation of Indian economy. As has been stated earlier, the economic scene in the pre-British rule, India was very primitive and simple. The people were not exposed to the opportunities outside their villages even not to talk of foreign countries. They were self sufficient, fulfilling their needs, from the village itself. We can't say that there was no foreign trade during those periods but by and large in the rural India subsistence economy was the traditional.

With the establishment of the British rule, the external trade received an impetus. The British rule found it fit to abandon the principles of mercantilism and adopt instead policies of duty free and unrestricted trade. Alongwith dangers in the conditions of external trade, the internal market in the country was also being opened up. The development of railways and roadways was taken up in the middle of 19th century. A direct consequence of this change in the nature of India's foreign and internal trade was the decline in the demand for hand made products.

Since India's craftsmen were mostly conservative, poor, cost-ridden and illiterate they could not organise on their own initiative to meet the challenge of the imported manufacturers by introducing more modern methods of industrial production.

The government of the day was completely indifferent to the sufferings of these unfortunate people. As a consequence, the only way for them to survive was to take to agriculture, either by claiming their share in the patrimony or by joining the army of landless. This process of deindustrialisation started at a time when most European countries and Japan were creating conditions for the expansion of industrial employment for their own people.

The sudden swelling in the number of people in agricultural occupations led to an enhancement in rental and land values and caused sub-division and fragmentation of landed property and gave rise to the problems of uneconomic land holding and unproductive rural debts. The expansion of exports on the other hand, led to significant changes in the pattern of agricultural production. Whereas the farmers previously produced to meet only the needs of their family members, now they began increasingly to produce for cash sales. Thus, subsistence farming began to give way to commercial agriculture and the traditional isolation of the village was ended.

The traditional 'self-sufficient' village, thus became more and more dependent on the outside world for its economic needs. The ancient village community could look after all its regular economic need because each had a complement of local rural artisans who served the villagers and received a customary remuneration in the formal share in the agricultural crops or a portion of the cultivable land of the village. The factory system of production, by bringing together large masses of workers belonging to different castes under a single roof, uprooted the deeply ingrained habits of thought and work.

**3.Peasantry and Land Revenue Policy :**

During the whole period of British rule, the Indian economy remained predominantly agricultural country. Organisation and agricultural production faced some peculiar problems which affected the condition of the peasantry also. One such problem was the terms of tenancy and the other was sub divisions and fragmentation of land.

The problem of tenancy was tried to be solved time and again and tenancy legislation was adopted as late as in the later half of nineteenth century.

The differences in terms of revenue settlement and tenancy arrangements as between provinces at the beginning of British rule were the result, in part, of pre-existing conditions and in part of prevalent ideas of British administrators.

Revenue settlements were made for the whole estates with landlords. Where such intermediaries were not available and the British administrators were reluctant to create them the settlement was made with individual cultivators. But even such settlement could not help the peasants. Even the later enactments were not effected properly and seriously. Modification of the revenue system in the landlord provinces made during first half of nineteenth century had the effect of further worsening the position of the tenants.

The Bengal Tenancy Act 1859 and its further amendments sought to prevent evasion by landlords, attempted to provide for a proper record of rights and also protecting even non-occupancy tenants from frequent capricious and inequitable enhancements of rent. Such legislations were adopted for other provinces also but after the adoption of Montford Reforms, tenancy legislation entered a new phase. The element of popular participation in government introduced new pressures and led to a new point of view being adopted in relation to the problem of tenant protection. But most of the legislation were ineffective and misdirected. The result was the creation of a series of inferior holder.

The second problem that was faced by the peasantry was sub-division and fragmentation of holding. This problem came into prominence during the inter-war period. The problem of such division arises out of the process of continuous division of owned land from generations. Continuous division among heirs or owners of land or heritable right leads ordinarily to division of areas of individuals, fields and plots. This is called 'fragmentation' of the cultivated holdings. The Royal Commission on Agriculture (1928) held that the evil of fragmentation of cultivation was, in fact, much more extensive.

Fragmentation could not be prevented unless the average size of the holding was itself established at a reasonable level. Attempts were however, made to eliminate fragmentation through the process of consolidation of holdings but to a limited extent.

Since the establishments of British rule the problem of the indebtedness of the Indian peasants had assumed a new and in many instances, an acute form. The increase in debt of the peasant was associated with a number of developments. Basically these were commercialisation of agriculture, the secular trend towards a rise in the level of prices, establishment of the right of the creditor to seize land in lieu of debt and the widening of the scope of alienable land rights.

### 4.Industrial Development :

Industrial development during the British rule was not at all satisfactory. Except for iron and steel, cotton and jute industries, which had some natural advantages, no other industry grew in the right dimension. This was basically because of lack of enterprenurship, capital extended marks and a keen foreign competition. Although a policy of protection was adopted but protection was given mainly to those industries whose products were being sent to England and or whose raw material was coming from England. State intervention could have compensated for the lack of knowledge, energy and finances of the Indian enterpreneur and for the absence of protection and helped that in over-coming the initial difficulties in the path of industrialistion. It is a fact that Indian economic situation could not improve without a comprehensive policy of state assistance, extending to every field of industrial efforts. This was demanded by Indian nationalists and the industrialists time and again during the second half of the last century.

Demanding state intervention in favour of industrial efforts, the Indian nationalists came, however, into frontal clash with the theoretical and practical position maintained by the Government of India towards the Indian-owned industries. Basing themselves on the doctrine of LaissezFaire the British ruler held at that time that the Government was ill qualified to further industrial development by direct action, and that all such matters should be left to promote enterprise. Hence during the period of British rule, state assistance, to industry was meager and took two forms a wholly inadequate provision of technical education and a halfhearted attempt at the collection and dissemination of commercial and industrial information.

The government was actually shirking to help these industries which were less useful to them. The contention of the government that it could do nothing for the industrial development was absolutely baseless and away from practice. The government had helped iron and steel industry by giving it subsidy. It was planted at the state expense, the introduction of cinchona, tea and coffee plantation. In the field of transport also it had invested huge amount.

The result of this attitude of the British government towards state aid to the modern industries was a lopsided industrial development of the country.

While iron and steel industry had flourished during their rule, the modern industries had not started as yet.

**5.Famines :**

Famines occurred in India at more or less regular intervals throughout the British rule. In the early days of British rule, the rulers were illprepared to mitigate the effects of famines, even if such famines were caused by local failure of crops and were not very widespread. As the administrative agencies were improved and particularly as the railway network connected the different parts of the country, large scale loss of life from starvation could be prevented. But even as late as 1943, the Bengal famines caused largely by administrative failures in the conditions created by the World War II, resulted in the death of nearly 1.5 million people.

To have an over view of the famines in India, let us recall that the earliest severe famine was the famine of Bengal, Bihar and Orissa in 1770. This was followed by the famines in 1783 in Northern India in 1790-93 in Bombay, Gujarat and

Northern Circulars, in 1802 in many parts of the country and many more famines. Till the Indian Mutiny about 10 million people had been affected by the recurrence of famines and they were scattered in the whole of the country.

Even after the Mutiny, the famines continued unabted. During these famines, always the government provincial as well as central, showed enthusiasm to lay down a policy for famine relief. It did considerable work in organising funds with public contributions. The famines enquiries were also held to look into the causes of the famines.

By the end of 19th century, various enquiry committees and the experience of the national leaders revealed that besides failure of the monsoon other factors such as loss of non-agricultural employment, excessive land revenue burdens and exports of food-stuffs also played some part in causing famines. Relief operations on these fronts were rather half hearted at first but as food riots broke out in different areas, the government had to sanction large funds for relief purposes. Towards the end of 1946, the government of India set up the Orissa Famine Commission. Their's was the first detailed report on famine and famine policy in India. The Commission recommended among other things that plans for public works should be kept ready well in advance of a famine. Another investigation was made at about this time regarding the adequacy of famine relief measures of Bihar. This investigation laid emphasis on the importance of accurate statistics relating to population, the state of agriculture and trade, so that timely measures could be taken to relieve suffering in the famine stricken areas.

In the present century again, India witnessed frequent famines. Commissions were appointed, steps were also taken but still this problem could not be tackled properly and it remained a major problem for the Indian economy. The British government of India hardly had any defined policy regarding the administration of famine relief before Lord Lytoon's viceroyalty. When famines occurred, adhoc measures were adopted to relieve sufferings such .as opening of free kitchens, granting bounties on imported food and so on. But little attempt was made in unfavourable season to utilise manpower temporarily thrown out of agricutur41 work. The effectiveness of relief operations depended very largely on the local administrators as there were no guidelines to direct them regarding their duties on such occasions.

**Self check exercise**

3. Write note on land revenue policy.

4. What was the industrial development during the British rule.

**6.Poverty :**

After 1857, many educated Indians thought that the British rule in India was very productive and beneficial. But with the passage of time, this illusion vanished and people started realising the fact that the British rule was aggravating the situation of poverty prevailing in the country. Dadabhai Naoroji was the first to undertake a systematic study to show that British rule was regulating into "continuous impoverishment and exhaustion of the country". In 1873, he for the first time, produced the first statisticals estimates of average per capita income.

He calculated that for the year 1867-68, the total national income of British India was 3-4 billion rupees for a population of millions of 20 rupees per head. If compared to the international standards of those days, Indian's per capita income was one of the lowest (Re.2 only). England at that time had per capita income of Re. 41, while Australia was, at the top with 43.4 followed by United States (27.2), Canada (26.9), Holland (26), Belgium (22), Germany (18.7), Austria (16.3) and Italy (12). In order to get an accurate idea of the problem, average income must be judged in terms of the existing cost of living. It was beyond doubt from the point of view also that what an average Indian earned was not sufficient to meet even his bare wants as a human being. This is more shocking against the background of the claims that there was abundance of prosperity in the land and resources of India. But the British rulers never agreed that there was poverty in India. They described the conditions of an ordinary Indian villager as superior to his contemporaries in England. They always contended that Indian villager is not poor but his wants are limited and hence he is satisfied with whatever he earns. But the fact was that the approach of the Britishers was cruel and heartless. To quote Dadabhai Naoroji again, "The Britishers first take away their means, incapacitate them from producing more, compel them to reduce their wants to the wretched means that are left to them, and then around upon them and adding insult to injury, tell them : see you have few wants; you must remain poor and of few wants. Have your pound of rice-or, more generously we would allow you two pounds of rice, scantly clothing and shelter. It is we who must have and would have great human wants and human employment, and you must slave and drudge for us like mere animal as our beasts of burden."

**1.5.5 Summary**

To get an idea of effects of British rule, it is necessary to know the situation prevailing in India before the establishment of East India Company which formed the basis of British rule. At the time of the establishment of East India Company, India was primitive society, ruled by the kings and Nawabs. There was practically no economic activity. By the time the Britishers started establishing themselves with the help of contracts and agreements with the Indian rulers, India had established itself as a predominantly agricultural country. First fairly reliable census for the whole of India taken in 1872, 56.2 percent classified as general labourers giving altogether 68.5 percent of the adult male population deriving their livelihood from that. Besides most of the rural population adopted agriculture as their subsidiary occupation.

**1.5.6 Short answer type questions**

**Write notes on**

i. Traditional economy
ii. Peasantry and land revenue policy
iii. Pverty during British rule
iv. Femines as economic consequence

**1.5.7 Short answer type questions**

i. What are the economic consequences of the British rule in India?
ii. Enlist some of the positive and negative effects on India economy during the British rule.

**1.5.8 Recommended books**


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|---|---|---|
| 1. D.R. Gadgil | : | The Industrial Evolution of India in Recent Times |
| 2. Rudar Dutt | : | Evolution of the Indian Economy |
| 3. K.S. Gill | : | Evolution of the Indian Economy |
| 4. G. Kaushal | : | Economic History of India |
| 5. R.C. Dutt | : | Economic History of India |
| 6. S.C. Kuchhal | : | The Industrial Economy of India |
| 7. S.C. Aggarwal | : | Dynamics of Labour Relations in India |

**M.A. (Economics)** **PART II** **PAPER-ECO-302**
**Evolution and Structure of Indian Economy**

**Semester-III**

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**Lesson No 1.6** **Dr. Manisha Sharma**
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# Indian Planning : Need Objectives and evaluation



## 1.6.1 Objectives of lesson

In this lesson we will study planning, need of planning, procedure of plan formulation, review of planning, and in the end critical evaluation of planning.

## 1.6.2 Introduction

The process of planning is a backward and forward process. The Perspective-Plans and Five Year Plans are prepared by the Planning Commission on the basis of projections. These plans are coordinated through national, regional and sectoral plans. Each plan proposes a perspective framework covering fifteen or twenty years. Physical targets are worked out for the economy basing on the availability of both physical and human resources .The preparation of a Five-Year Plan is usually spread over a period of two or three years. Each Five-Year Plan provides for a scheme of investment and for basic policies and institutional changes which are designed to achieve certain major policy aims. In proposing these aims an attempt is made to take into account the progress of the economy over the past and the objectives to be realised in the course of the next fifteen years.

### 1.6.3Procedure of Plan Formulation.

The formulation of a Five-Year Plan is attempted in various stages. The first stage is the preparation of the approach paper. It involves an examination of the State economy, an appraisal of the past trends in production and rate of growth in relation to the long-term view of the economy. It is prepared by the different divisions of the Planning Commission in consultation with the State Governments and different departments of the Central Government. Preliminary conclusions on the plan and related matters are submitted by the Commission to the Central Cabinet and then to the National Development Council. Only on the approval by the Council, the Commission prepares the draft plan on the recommendations and modifications suggested by the Council and on the approval of the draft plan by the Cabinet, it is circulated widely for country wide debate.

The second stage consists of studies which are intended to lead to consideration of the physical content of the plan, *i.e.,* Draft plan. While these studies proceed, the Planning Commission constitutes groups for each sector composed of its own specialists and those of ministries and non-official experts which review the situation in their respective fields and formulate assumptions to be made in the preparation of plan and indicate targets to be achieved.

Thus, in the formulation of each Five-Year Plan, a few crucial parameters like population, national income, investment, employment, etc. are arrived at within the Planning Commission based on a feasible analysis and probable movements of different forces.

During the implementation and completion of each Plan, the different divisions of Planning Commission analyse the development in nation with the targets and try to rectify the leakages in the next Plan.

### 1.6.4 Review of Indian Plans

On January 26, 1950, the Constitution of the Republic of India came into force. In March, 1950, the Planning Commission was set up by the Government of India under the chairmanship of Jawahar Lal Nehru to prepare a plan. In July, 1951 the Planning Commission issued the draft outline of the First Five Year Plan and the same was presented to the Parliament in December, 1952.

**The First Five Year Plan (1951-52 to 1955-56)**

The First Plan had the following objectives:

(i) To bring the rehabilitation of the Indian economy which was disrupted because of the World War II and the partition of the country;
(ii) To help solve the food problem and bring about improvement in the supply of industrial raw materials like raw cotton and jute;
(iii) To check inflationary pressures in the economy;
(iv) To complete irrigational and hydro-electric projects to renovate the depreciated stock of railways;
(v) To lay firm foundations of further economic progress in the subsequent Five Year Plans;
(vi) To indicate measures of social justice in consonance with the Directive Principles of the Indian Constitution; and
(vii) To build the administrative structure and other organizations necessary to carry out various programmes of economic development.

The total proposed outlay was Rs. 3,870 crores. The public sector outlay was Rs. 2,356 crores while the expenditure was Rs. 1960 crores only. The private sector had an investment of Rs. 1800 crores.

The First Plan was a success owing to an escalation in agricultural production. Food production increased by 20 percent. Although the target for national income growth was only 11 percent, the actual increase was 18 percent. Per capita income grew by 11 percent and per capita consumption by 9 percent. Index of industrial production went up to 139 resulting in an annual growth rate of 8 percent. Prices came down by 13 percent.

**The Second Five Year Plan (1956-57 to 1960-61)**

The Second Plan had the following objectives:

(i) To bring about an increase in national income by 5 percent per year;
(ii) To bring about a large expansion in employment opportunities by about 10 to 12 million jobs during the period of 5 years;
(iii) To bring about rapid industrialisation of the country with special emphasis on the development of heavy and basic industries;
(iv) To move in the direction of establishing a socialist pattern of society through reduction of inequalities of income and wealth and more equitable distribution of economic power.

The actual outlay of Second Plan was Rs. 4672 crores (as against the original provision of Rs. 4800 crores). The private sector had an investment of Rs. 3100 crores.

The plan had made considerable progress in every branch of national life. The investment programmes were directed more towards creating capacity than accelerating the immediate production. The actual increase in national income was 19.5 percent only against a target of 25 percent. A spectacular achievement of the plan was the remarkable expansion of iron and steel industry. The Second Plan could not achieve the expected results because of low agricultural production due to failure of monsoon rains.

**The Third Five Year Plan (1961-62 to 1965-66)**

The objectives of the Third Plan were:

i. To secure an increase in national income of 5 percent per annum.
ii. To achieve self-sufficiency in foodgrains and increase in agricultural production to meet the requirement of industry and export.
iii. To expand basic industries like steel, chemical industries, fuel and power and establish machine-building capacity so that requirements of further industrialisation can be met with in a period of ten years or so mainly from the country's own resources.
iv. To utilise to the fullest possible extent man power resources of the country and to ensure a substantial expansion in employment opportunities; and v. To establish a progressively greater equality to opportunities and to bring about reduction in disparities of income and wealth and more even distribution of economic power. The financial outlay in the public sector was targeted at Rs. 7500 crores. In view of the sharp increase of prices, the actual expenditure in public sector rose to Rs. 8577 crores. The investment by the private sector was Rs. 4190 crores.

The plan was a failure in many ways. The plan target was met only in transport, communication and social services sectors. There was a fall in agricultural production from 82 million tonnes to 72 million tonnes. The national income at 1960-61 prices declined by 5.7 percent in the last year of the plan. The growth rate of 5 percent in national income could not be achieved. A target of 14 percent industrial production rose by only 5.7 percent per annum.

**The Annual Plans (1966-67 to 1968-69)**

Due to various shortfalls, Government delayed Fourth Plan and Annual Plans were there for three years. The period 1966-69 is called 'Plan Holiday'. The aggregate outlay over the three year period of these annual plans was Rs. 6,628 crores.

**Self check exercise**

1. Why there was need of planning in India?

2. What is plan holiday?

## The Fourth Five Year Plan (1969-70 to 1973-74)

The objectives of the Fourth Plan were:

(i) To achieve stability and progress towards self-reliance;
(ii) To attain the growth rate of 5.7 percent per annum;
(iii) To achieve basic objective of social and economic justice;
(iv) Creation of more employment opportunities and guaranteeing the national minimum;
(v) Balanced regional development;
(vi) Refashioning of economic institutions.

The total outlay of Rs. 24,880 crore was provided. Of this, the public sector outlay amounted to Rs. 15,902 crore while the investment in the private sector was anticipated to be Rs. 8,978 crore. The actual public expenditure was 16,160 crore.

National income increased by only 3.3 percent as against the target of 5.5 percent. Foodgrains registered an average growth of only 2.7 percent. On the industrial front, against the target of 6.8 percent, real growth rate was only 4.2 percent. Absence of a general price stability, Bangladesh developments, Indo-Pakistan war in 1971 and abnormal drought in 1972 virtually robbed the Fourth Plan of the boost that it was expected to give to the economy.

## The Fifth Five Year Plan (1974-75 to 1978-79)

The Fifth Plan had the following objectives:

(i) To attain an annual growth rate of 5.5 percent in the Gross Domestic Product;
(ii) To bring about expansion in productive employment;
(iii) To successfully implement a 'National Programme of Minimum Needs' by providing facilities for elementary education, drinking water, medical facilities, housesites, rural electrification, slum improvement, etc. to the

landless agricultural workers, tribals and such other poorest sections of the community;

(iv) To bring about expansion of social welfare programmes;

(v) To lay greater emphasis on adequate development of agriculture, key and basic industries and industries producing consumption goods;

(vi) To adopt a programme of adequate public procurement and public distribution system for an assured supply of essential consumption goods at reasonable prices, at least to the poorer sections of society;

(vii) To bring about vigorous promotion of exports and import substitution;

(viii) To establish an equitable price-wage-income balance; and

(ix) To adopt institutional, fiscal and various other measures for reduction of economic, social and regional inequality.

The Fifth Plan envisaged a total outlay of Rs. 69,300 crore. The plan provided for a total public sector outlay of Rs. 42,300 crore. The outlay of private sector was put at Rs. 27,000 crore. In real terms, the Fifth Plan expenditure was Rs. 40,712 crore for the Government sector. The Fifth Plan period was reduced by a year. Thus, the Fifth Plan covered the period 1974 to 1978. The average growth rate during 1974-78 was only 3.9 percent as against the targeted 4.4 percent. During the period of 1974-78 prices increased by 34.5 percent while the consumer price index rose by 35.2 percent. The biggest failure of the Fifth Plan was its inability to make a dent in unemployment. Thus, the poor continued to remain where they were.

**The Sixth Five Year Plan (1980-81 to 1984-85)**

While the draft Sixth Plan was presented in 1978, the plan was terminated with the change of Government in January, 1980. The new Sixth Plan was effected in April, 1980. The objectives of the Sixth Plan were:

(i) To bring about a significant rise in the rate of growth of the economy promoting efficiency in the use of resources and improved productivity;

(ii) To bring about modernisation for achieving economic and technological selfreliance;

(iii) To bring about progressive reduction in the incidence of poverty and unemployment;

(iv) To bring about speedy development of indigenous sources of energy;

(v) To bring about improvement in the quality of life of people through a minimum needs programme;

(vi) To strengthen the redistributive system with a view to bring about a reduction in inequalities in income and wealth;

(vii) To bring about a progressive reduction in regional inequalities;

(viii) To promote policies for controlling the growth of population;

(ix) To bring about harmony between short-term and long-term goals of development by prompting the protection and improvement of ecological and environmental assets; and

(x) To take steps to promote the active investment of all sections of the community in the process of development through appropriate education, communication and institutions.

The Sixth Plan envisaged a total outlay of Rs. 1,72,210 crore, out of which Rs. 97,500 crore were in the public sector and Rs. 74,710 crore in the private sector. Under the Sixth Plan actual public sector expenditure was Rs. 11,0821 crore at 1979-80 prices.

The national income grew by 5.4 percent per annum by exceeding the estimated rate of 5.2 percent growth per annum. The encouraging growth rate was contributed by all the sectors, such as agriculture, industry, and services. However, the poor performance of the manufacturing and mining sectors nearly offset the good performance of agricultural and service sectors. What was overlooked was the plan's failure to reduce poverty and unemployment. Broadly, however, the Sixth Plan can be considered a success.

**The Seventh Five Year Plan (1985-86 to 1989-90)** The objectives of seventh plan are:

(i) To increase national income by 5 percent per annum;

(ii) To increase agricultural production at an average annual rate of 4 percent; (iii) To increase industrial growth by 8.3 percent per annum;

(iv) To lower capital output ratio by increasing productivity of capital and capacity utilisation;

(v) To promote self-reliance;

(vi) To promote exports to making the problem of balance of payments more manageable;

(vii) To implement the programmes of poverty alleviation;

(viii) To bring down growth rate of population;

(ix) To control inflationary pressures in the economy. The plan envisaged an aggregate outlay of Rs. 3,48,148 crore out of which Rs. 1,80,000 crore were in the public sector and Rs. 1,68,148 crore in the private sector. The actual Government expenditure was Rs. 2,25,004 crore.

Many of the targets set in the Seventh Plan were exceeded partly. The average annual growth rate of GDP was 5.8 percent, which exceeded the estimated rate of 5 percent. Average annual growth rate of the industrial sector was marginally lower at 8.5 percent than the estimated growth rate of 8.7 percent. Agricultural production showed an annual average growth rate of 3.8 percent against the estimated 4 percent.

### The Eighth Five Year Plan (1992-93 to 1996-97)

The Seventh Plan completed its term on March 31, 1990. Due to internal economic crisis and external political uncertainties, the Eighth Plan was delayed by two years and commenced only on April 1, 1992. The intervening two years were years of Plan Holiday with an outlay of Rs. 1,42,377 crore in public sector. The objectives of the Eighth Plan were:

(i) Generation of adequate employment to achieve near full employment level by the turn of the century;

(ii) Containment of population growth through active people's cooperation and an effective scheme of incentives and disincentives;

(iii) Universalisation of elementary education and complete eradication of illiteracy among the people in the age group of 15 to 35 years;

(iv) Provision of safe drinking water and primary health care facilities including immunisation, accessible to all the villages and the entire population and complete elimination of scavenging;

(v) Growth and diversification of agriculture to achieve self-sufficiency in food and generate surplus for exports;

(vi) Strengthening the infrastructure in order to support the growth process on a sustainable basis. The Eighth Plan provides for a total outlay of Rs. 7,98,000 crores. The public sector outlay has been placed at Rs. 4,34,100 crores-Rs. 3,61,000 crores as investment component. The private sector outlay is Rs. 3,63,900 crores.

The Eighth Plan aimed at a growth rate of 5.6 percent per annum, but the annual growth rate is 6.5 percent. Much of this growth performance reflects the successive good performance of the agricultural sector, which has averaged a growth rate of about 3.5 percent over the plan period as compared to the target of 3.1 percent. The average industrial growth rate during the Eighth plan period was 7.2 percent, being marginally lower than the plan target of 7.4.percent per annum. Both exports and imports have grew significantly in the Eighth Plan. The average export growth has been 13.5 percent and growth rate of imports has been 14.5 percent. The foreign exchange reserves of the country gradually increased from about US dollars 1 billion in 1991-92 to almost US dollars 26 billion at the end of the Eighth Plan. The Central government's fiscal deficit as a proportion of GDP has declined significantly from 8.4 percent in 1990-91 to 5 percent in 1996-97. The Eighth Plan thus witnessed reasonably good performance as revealed by the macro-economic indicators of the economy.

**The Ninth Five Year Plan (1996-97 to 2001-02)**

An approach paper of the Ninth plan was presented to the National Development Council in January, 1997 and the Draft Plan was released on March 1, 1998 and approved by the NDC in February, 1999. The objectives of the ninth plan were:

(i) Priority to agriculture and rural development with a view of generating adequate productive employment and eradication of poverty;

(ii) Accelerating the growth rate of the economy with stable prices;

(iii) Ensuring food and nutritional security for all, particularly the vulnerable sectors of the society;

(iv) Providing the basic minimum services of safe drinking water, primary health care facilities, universal primary education, shelter and connectivity to all in a time bound manner;

(v) Containing the growth rate of population;

(vi) Ensuring environmental sustainability of the development process through social mobilisation and participation of people at all levels;

(vii) Empowerment of women and socially disadvantaged groups such as scheduled castes, scheduled tribes and other backward classes and minorities as agents of socio-economic change and development;

(viii) Promoting and developing people's participatory institutions like Panchayati Raj, cooperatives and self-help groups; (ix) Strengthening efforts to build self-reliance.

All these objectives are intended to achieve 'growth with equity' and they should get reflected in four dimensions of State policy: (i) Quality of life of the citizens

(ii) Generation of productive employment (iii) Regional balance, and

(iv) Self-reliance.

As per the commission's estimates the total investment during the Ninth Plan was Rs. 21,70,000 crores at 1996-97 prices. Total public sector plan outlay was around Rs. 8,59,200 crores out of which investment in the public sector wasRs. 7,26,000 crores.

The outlay was 35.7 percent more than the Eighth Plan.

**In Tenth five year plan (2002-07)** emphasis was laid on decentralisation and people's participation in the planning process through institutional reforms. It emphasized development of rural sector by strengthening of the Panchayati Raj. Increasing the rate of economic growth by keeping price stable. Other objectives were to control the population, eradication of poverty, self sufficiency employment generation and improvement of human capital etc.

### Eleventh five year plan (2007-12)

Main emphasis was on poverty alleviation programmes, to increase the economic growth rate, employment generation. The draft twelneth five year plan (2012-17) has already been submitted the main objectives are as follows: inclusive growth, redinction in poverty, regional equality gender equality will get special attention in the plan along with empowerment of weaker sections of the society.

**Self check exercise**

3. What were the main objectives of sixth and seventh five year plans?

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______________________________________________________________________

4. What do you mean by growth with equity?

______________________________________________________________________

______________________________________________________________________

### 1.6.5 Critical Evaluation of Indian Planning

### (a) Achievements of the Planning

1. **Growth in national income and per capita income:** An important objective of planning is to increase output of all goods and services, *i.e.,* to increase national income. As a direct result of planning, India's national income and per capita income went up. While the growth rate in national income was modest around 4 percent per year, the growth rate in per capita income was quite unsatisfactory, less than 2 percent per year. This lower rate is due to the high growth rate of population.
2. **Progress in agriculture:** As a result of this plan expenditure of 22 percent on agriculture and irrigation, agricultural production increased considerably. The area and product of all the crops had more than doubled or even trebled. Since 1966 the main emphasis has been on the introduction of new technology for raising the agricultural productivity. This work was first undertaken under Intensive Agricultural Area Programme. This **was** followed by the HYV programme.
3. **Progress in Industry:** More impressive than the growth of agriculture has been the increase in the field of industry. The growth of steel, aluminium, engineering goods, chemicals, fertilizers and petroleum products is especially important. With the growth of these industries, many other industries were started. A variety of capital goods and consumer goods are being produced in both large and small scale units. The annual rate of

growth has been quite impressive-as high as 14 percent in the case of aluminium, and 8 to 10 percent in many other capital goods and engineering goods. The growth rate was rather low, for example, 3 percent in the case of cloth. India has now attained selfsufficiency in all consumer goods. India can now set up and manage all industries from Indian capital goods and with very little of imports of capital goods. The development of productive capacity has also been marked in the area of energy sources. India now became the tenth most industrialised country in the world.

4. **Growth of Public Sector:** The public sector in this country with all its limitations has reached the commanding heights and thus contributes a lot to economic growth. At the time of independence its size was quite small. During the planning period approximately 45 percent of the total investments have been made in the public sector.
5. **Development of Infrastructure:** Means of transport and communication, irrigation facilities and energy sources broadly constitute the infrastructure of a country. A high priority has been accorded to the development of infrastructure under the various plans in India. Though the targets laid down under the plans for the development of the infrastructure invariably remained unrealised, yet it has to be admitted that the country would not have reached the present level of infrastructural development in the absence of economic planning.
6. **Increase in Consumption of People:** The per capita consumption of cereals, edible oils and vanaspati, fish, beverages and cloth increased considerably during the plan periods.
7. **Progress in the Field of Science and Technology:** Significant progress has been achieved by India in the field of science and technology. The progress has been so fast and so great that India is now counted as the third largest country in the field of science and technology.
8. **Progress in Health and Education:** Rise in life expectancy of the Indian people is there during the plan period. Whereas the average life expectancy of an Indian was about 32 years in 1951, it has gone more than 65 years now. This is largely the result of elimination of epidemics and providing medical facilities. There is development in educational system. India today has a very wide base of skilled workers to draw upon due to educational facilities available.
9. **Increase in employment and reduction in poverty:** Poverty in India is going to be eliminated by the year 2010 AD by providing full employment and basic needs of the people.
10. **Achievement of self-sufficiency:** Self-sufficiency in food is achieved and is now in a position to export foodgrains. India is planning to do away with foreign aid gradually by increasing exports.

**(b) Failures of Planning in India**

1. **Failure to Abolish Poverty:** The growth of per capita income is very low. The impact of the plan on reduction of poverty was only marginal. Though the percentage of people living below poverty line had come down, there is still more than 26 percent under poverty line. With the rapid growth of population and growing inequality of income and wealth the abolition of poverty appears to be a distant dream. 'Garibi Hatao' has remained a mere slogan.
2. **Failure in Providing Employment:** Unemployment is on the increase despite planning programmes. The number of unemployed persons was over 5 million at the end of the First Plan and now it is 10.6 millions in the Ninth Plan. As well our plans are growth oriented and not employment oriented. India's unemployment situation is becoming worse with every passing year. **3. Failure in the reduction of inequalities of income and wealth:**

   During the last five decades of planned economic development, inequalities of income have increased, redistribution of income in favour of the less privileged classes has not taken place. The rich are clearly becoming richer. There is growing of income and wealth in the hands of the propertied classes. In the agricultural sector, 3 percent of the households own nearly half of the agricultural land, while 75 percent of households just own only 10 percent of land. In the field of industry, a few large industrial and business houses are controlling over the industrial economy. Speculative gains, black marketing, smuggling and other illegal incomes and corruption generated by licence and quota systems have made the upper income group terribly rich. The fruits of economic progress instead of being shared by the masses flow into the pockets of the traders, businessmen and industrialists.
4. **Failure of Land Reforms:** The decision to fix ceiling of land holdings and transfer surplus land to small peasantry has not been properly implemented. The rich and middle farmers have become very powerful by using all the benefits that Government has provided them, under the plans—as for example, the irrigation facilities, the improved seeds, the subsidised fertilizers, etc.
5. **Failure in reducing the regional disparities:** Many areas of country remain backward and regional disparities in agricultural and industrial development have increased. Many segments of population like the scheduled castes and scheduled tribes have not shared fully in the benefits of growth.
6. **Failure in providing universal primary education:** We are still far from attaining the goal of universal primary education which the

Constitution has enjoined should be done within ten years. The remarkable expansion of higher education, apart from being at the cost of quality has led to a high degree of wastage and a growing unemployment of graduates.

7. **Failure to control the increase in population:** A rapidly increasing population is dragging down the rate of economic progress in India. Whatever economic progress has been achieved, most of it is eaten away by the additional population. The economy has to find additional food, clothing, etc. for 16 to 17 million additional people every year. This has been the real difficulty for India.
8. **Failure to maintain stable prices:** The general price line has been rising continuously. The general price level went up at an annual average rate that varied between 5 and 6 percent.
9. **Failure in proper implementation of plans:** The slow progress in the country is partly due to defective planning and faulty implementation of the schemes of economic development. India's plans have been quite ambitious proposing to achieve a large number of targets in a short period of time. The basic defect of planning in India is its poor implementation.
10. **Failure in infrastructural facilities:** Planners have not been able to devise a set of infrastructural facilities for the rapid economic growth.

### 1.6.6 Suggestions to Revitalise Economic Planning.

1. Indian planning, first of all, must aim at bridging the widening rural-urban dichotomy and increasing differences between the consumerist life style of affluent minority and the poor majority. The strategy for achieving this must include not only a universalised basic needs programme but also equal opportunities in education and in income generating activities, unhampered either by hereditary or environmental constraints.
2. Emphasis in target fixing should shift from financial targets to physical targets. Moreover, a proper link between financial targets and physical targets need be projected in each plan.
3. The targets should deal not only with the GDP or NDP and size of plan outlays but also with the distribution of the expected additions to the NDP among the people.
4. The Planning Commission should spell out details of the investment it proposed for the plan period by sub-magnitudes and in terms of both outlays and expected results in addition to output or equipment.
5. It is necessary to give high priority in investment outlay to maximising the efficiency of existing equipment full utilisation of unutilised capacity, and completion of projects which have works in progress.
6. Decentralisation and participation are two areas which play a special role in securing efficiency in implementation.

7. We should give priority to an integrated, nationally extended comprehensive programme for human resource development.
8. The best possible opportunities and facilities should be extended for promotion and employment of science and technology as essential inputs of economic development.
9. A high priority need be given to a population policy that would effectively bring down the growth rate of our population.
10. Involvement of the public participation in the successful implementation of plans should be achieved to attain the plan targets.
11. The Government should rely on eminent academicians in plan preparation instead of administrative bureaucrats.

## 1.6.7 Summary

In the formulation of each Five-Year Plan, a few crucial parameters like population, national income, investment, employment, etc. are arrived at within the Planning Commission based on a feasible analysis and probable movements of different forces. During the implementation and completion of each Plan, the different divisions of Planning Commission analyse the development in nation with the targets and try to rectify the leakages in the next Plan.

## 1.6.8Short answer type questions

1. Define planning.
2. What is the procedure of plan formulation?
3. What are the achievements of planning in India?
4. What are the failures of planning in India?

## 1.6.9 Long answer type questions

1. Explain plan formulation procedure?
2. Critically evaluate Indian planning.

## 1.6.10 Recommended books

| | | |
|---|---|---|
| Datt and Sundaram | : | Indian Economy (latest edition) |
| P.K. Dhar | : | Indian Economy (latest edition) |
| Mishra and Puri | : | Indian Economy (latest edition) |
| A. N. Aggarwal | : | Indian Economy (latest edition) |

**M.A. (Economics)** **Part-II** **PAPER-ECO-302**
**Evolution and Structure of Indian Economy**

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## Basic Strategy of Indian Planning: Changing Paradigms

**Structure:**

## 1.7.1 Objectives of the lesson:

Following are the objectives of this lesson:

- to know about the basic elements of development strategy
- to learn the Nehru-Mahalnobis strategy and the economic philosophy behind
- to discern the diversion from the basic strategy developed by Nehru-Mahalnobis and move towards Gandhian model of development
- to understand the Manmohanomics and LPG
- to know about the Neo-Gandhian approach to development-PURA

## 1.7.2 Introduction:

Every development plan requires an approach to achieve certain long term objectives. India, after independence, followed the path of planned economic development. Being an underdeveloped country and further devastated by the partition of the country did not have much resource at its disposal, thus, development works could not be started in all areas of economic activities. In this context, leading sectors have to be identified and priorities have to be determined and resources have to devote these sectors. Therefore, some strategy has to be adopted to achieve the best for the nation by using the scarce resources judiciously. This has been well established in the literature of development that priority areas should be identified and the available meager resources to be devoted to these areas. Diffusion of resources in many areas may turn out to be of little positive consequences. Rosenstein Rodon has asserted in his formulation that if an economy stagnated for the long time, would not grow unless a 'big push' is given to it. The Indian economy needed exactly this kind of 'push' after 1947. Hence, economic planning was advocated which involved a higher level of investments and determination of right priorities.

The basic objectives of our Five Year Plans were "development along socialist lines to secure rapid economic growth and expansion of employment, reduction of disparities in income and wealth, prevention of concentration of economic power and creation of values and attitudes of free and equal society. In order to achieve these objectives the planners have formulated a strategy of planned economic development. In the history of planning in India, eleventh plan (2007-12) is already completed and the twelneth plan, 2012-17 is in progress, Did we witness any major change in the strategy of planning overtime? If yes, what are changing paradigms? An attempt has been made in this lesson to address these questions.

## 1.7.3 Strategy of Economic planning:

### i. Nehru-Mahalanobis Strategy of Development-Based on Rapid Industrialization:

The economy was in doldrums on the eve of independence, and running short of food supply and basic infrastructure required for development. The first five year plan was based on the Harrod-Domer model of development-based on two ways functioning of investments in terms of multiplier and acceleration principles, major emphasis was placed to solve the problem of food grains and resources were devoted to agriculture and infrastructure with particular emphasis on energy, means of transport and communication and irrigation facilities. However, this strategy did not continue for the rest of the plans as the supply of food grains was assured under the PL-440 and 660 from the USA and second five year plan onwards were based on the Nehru-Mahalanobis model of growth. This strategy emphasized investments in heavy industry to achieve industrialization which was assumed to be basic condition for rapid economic development. At that time Nehru was very forthright in pointing out that industrialization meant development of heavy industries. The plan frame of the second plan states that in the long run, the rate of industrialization and the growth of the national economy would depend upon the increasing production of coal, electricity, iron and steel, heavy chemicals and heavy industries generally which would increase the capacity for capital formation. One important aim was to make India independent as quickly as possible of foreign imports of producer goods so that the accumulation of capital would not be hampered by difficulties in securing supply of essential producer goods from other countries. The heavy industry must, therefore, be expanded with all possible support. Thus the core of the strategy adopted by Indian planners for the second plan and with minor modification for subsequent three plans (up to the fifth plan)-was rapid industrialization through lumpy investment on heavy, basic and machine-building industries.

The experience of different countries have shown that unless a country develops iron and steel, heavy engineering, machine tools and heavy chemical industries, it would fail to accelerate the pace of economic development. Lacking in capital for development purposes, India at the time of independence thus had no option but to adopt the strategy of unbalanced growth. It was not possible to develop both capital and consumer goods industries simultaneously. Hence, growth of consumer goods industries and the agriculture was left to the market forces.

The planners have defended the priority to industrialization on the grounds that on the eve of independence the country was industrially backward and as such the establishment of new industries on big scale and development of traditional industry was an imperative necessity. India is a labour abundant country; its productivity in the primary sector is very less whereas the industrial sector has large potential so far as the productivity of labour is concerned. Hence, for raising national income at fast rate there is no way out except to establish industries.

Development of basic and heavy industry has very large forward and backward integration, consequently provide big boost to the other sectors of the economy. In addition development of industry provides better scope for exports and earning foreign exchange for the further development of the nation.

Planning commission rejected the alternative strategy of light industries producing consumption goods. This approach must have produced large quantity of consumer goods to the satisfaction of the elite and the capital goods sector had lagged behind. Therefore, planning commission rejected the short period availability of consumption goods in favour of production of capital goods. The capital goods approach based on Russian experience expected people to sacrifice in the short period in favour of high standard of living in the long period. Besides, this approach would enable the country to have a large volume of capital goods in the short period and a large volume of both capital and consumption goods in the long period.

This strategy was commended for the smart increase in the levels of savings and investments in the country, for, the impressive development of economic infrastructure especially irrigation, energy, transport and communication etc. However, development strategy was severely criticized for its inadequate emphasis on small and cottage industry and agriculture, for the growing emergence of trade deficit, for growing unemployment in the country and above all, for growing inequality of income and wealth on the one side and very slow reduction of poverty on the other.

### ii. Nehru- Mahalanobis Strategy of Development- Employment Considerations:

This strategy of development of basic and heavy industry came in conflict with employment objective of plans. The strategy had visualized that the full employment would be attained by realizing the 5% annual increase in the national income. It was admitted that modern industries would not generate much employment but it was hopefully asserted that the traditional sectors meeting the demand for basic consumption goods had the capacity to absorb all the labour force available outside the modern sector. Thus the objective of additional employment was to be taken care of by the policies which were parallel to, but not an integral part of the strategy of growth. Here the basic defect in the approach was that this aspect of strategy was not translated in terms of actual projects or project complexes and the expectation did not materialize.

### iii. Nehru- Mahalanobis Strategy -Small Scale Industry and Consumer Goods:

This strategy did not entirely ignore the small scale industry by recognizing the fact that the greater the market surplus of consumer goods in the household and small industries, the greater will be the possibilities of investments in heavy industries without any fear of inflation. For, the growing population has to be fed and clothed, the large scale industry with long gestation period was unable to meet such demands. Hence this strategy gave active encouragement to small scale industries producing consumer goods. It was asserted that the input-output ratio would be low in small scale and cottage industries and gestation period very short and obviously, the small scale sector was ideally suited to increase the supply of consumer goods.

### iv. Nehru-Mahalanobis Strategy -Import Substitution led industrialization:

Next basic tenet of the strategy was to develop industrialization through the process of import substitution based on the infant industry argument by creating high walls of tariffs. Consequently, it helped India -an underdeveloped nation in building up the industrial base. India's demand for industrial imports increased much more rapidly than the foreign demand for its exports. The inability of exports to increase rapidly was due to the inability of primary goods exports to expand at a fast rate. Therefore to meet domestic demand of industrial products, India must set up import substituting industries. However, this type of policy has also been criticized Raul Prebish is of the view that firstly, when the relatively easy phase of import substitution is reached, there are limits to import substitution in the developing country like India. Secondly, such a policy leads to product distortation because such as import substituting industries that are set are not according to the requirements of the long term needs of the nation rather production of those goods which the country like India is unable to acquire from other nations. Thirdly, import substitution strategy forces to go for excessive protectionism. This insulates national markets from external competition, weakening and even destroying the necessity for improving the quality of output and lowering under the privateenterprise system. India is a major sufferer on this front. Fourthly, the quality unnecessarily depending upon such policy increases the cost of production for the economy as a whole. Finally, protectionist policies have promoted the industries which are capital intensive, employ a relatively smaller labour force, and tend to accentuate the income disparities.

### v. Nehru- Mahalanobis Strategy of Development -Public Sector:

This strategy assigned a dominant role to the public sector. As investments in the basic and heavy industry was very high and gestation period very long and that too with low profitability. The private sector was too small to bear such burden of heavy industry and was not keen on providing infrastructural facilities. Besides, the control of public sector would vest the control of the commanding heights with the government and this would help the development of a socialist society. Above all, the public sector would prevent the development of the monopoly ownership and exploitation which are inherent in the private sector. It was for these reasons; this strategy went for in a big way for the expansion of public sector.

**Self-Check Exercise :**

Answer the following questions in five-six lines :

(i) What is Nehru- Mahalanobis Strategy of Development?

(ii) How this strategy has helped to build structure for further industrialisation?

### 1.7.4 The Gandhian Socialism- Janata Party Regime 1977:

The Nehru-Mahalanobis strategy which was based on the long term objectives to satisfy, opted for heavy industry with the domination of the public sector and followed the protectionist path to safeguard the infant industries and to boost savings and the investments. However, it failed to provide national minimum level of living despite first five plans. Nearly 40% of the population lived below the poverty line. The number of unemployed and under- employed was quite high and was increasing continuously. The inequalities of income and wealth had worsened and there was growing concentration of economic power in the hands of few. Land reforms were not properly implemented, resulting in much dissatisfaction in the rural areas. It was in this context that the Janata Party in 1977 adopted Gandhian Socialism as the main objective of development and the Janata Party's sixth plan (1978-83) was broadly based on the Gandhian Model of economic growth. The basic objective of the Gandhian model was to raise the material as well as the cultural level of the Indian masses so as to provide a basic standard of life. It laid the greatest emphasis on the scientific development of agriculture and rapid growth of cottage and villages.

**i. Contents of the Gandhian Model of Growth:**

- Development in agriculture for the self sufficiency in foodstuffs which can be achieved by the better quality of inputs and through land reforms. Abolition of money lenders' money lending system and increase the credit facilities to the farmers. This model lays special emphasis on dairy farming as an occupation and as an auxiliary to agriculture.
- Attain maximum sufficiency in village communities. Hence the model emphasizes the expansion of the cottage and village industries along with agriculture. Spinning, weaving and manufacturing of khadi are given the first place.
- There is general misconception about Gandhi being opposed to the development of large-scale industries. Actually, the Gandhian Plan recognizes the need for and the importance of certain selected basic and key industries in India, especially defence, hydro-electric, thermal-electric, mining and metallurgy, machinery and machine tools, heavy engineering and heavy

chemicals. Gandhiji welcome machinery and modern amenities wherever they lighten the burden of the villagers without displacing the human labour. Machinery is good when it operates in the interests of all; it is evil when it serves the interests of the few.

- This plan laid emphasis on small scale industries to replace production oriented planning with employment oriented planning. This necessitates demarcation of areas of high employment potential which also ensure high and efficient production.
- The problem of distribution is to be tackled at the production end and not at the consumption end. The decentralization of small scale production it was expected that this will cut the very root of accumulation of wealth. And whatever large-scale production is inevitable, it should be left to government ownership and management.

Hence, we can say that the Gandhian model of growth hopes to achieve a national minimum level of living within the shortest possible time and aims at removal of concentration of income and wealth and tends towards growth with stability. **(B) Self-Check Exercise :**

Answer the following short Questions.

(i) What was idea of Gandhian Strategy of development.

(ii) Enlist any three contents of Gandian Strategy.

### 1.7.5 Basic Needs Strategy:

#### i. Early Phase of Liberalization (1980-85):

When Janata party lost power to the Congress (I) in 1980, the fifth/five year plan 1978-83 was terminated and the sixth five year plan 1980-85 was adopted. In deciding the growth path the planners highlighted the role of the public sector that it had played in the past. They asserted that the public sector investments would continue to play an important role in influencing the growth performance of the economy in the future. Nonetheless the share of the public sector investment in the total investment was reduced. Even the investment pattern in the sixth plan was not in the conformity with the Nehru-Mahalanobis Strategy. The early phase of liberalization had started in the Indian planned economic development. The plan gave a high priority to energy as its inadequate availability posed a serious threat to the whole planning activity in the country, the heavy industries were denied the priority they deserved. Another dimension in the development of the sixth plan that deserved particular attention was the special emphasis on sustained efforts to raise exports for building up the desired safety margin in the long-term balance of payments position of the economy.

The sixth plan document stated that the basic task of economic planning in India is to bring about a structural transformation of the economy so as to achieve a high and sustained rate of growth, a progressive improvement in the standard of living of the masses leading to the eradication of poverty and unemployment and provide the material base for the self reliant economy. The strategy to achieve these objectives was chosen after examining various alternative development profiles. Keeping in view the experience of the past, it was asserted that for realizing these objectives a substantial acceleration in the overall growth rate of the economy was necessary. At the same time the failure of trickle down effects was admitted. Therefore, various redistributive measures were advocated for raising the share of poorer sections in the national income consumption. The commission particularly emphasized the need for incorporating specific action programmes like the IRDP, NREP and as such their anti-poverty schemes in the strategy which aimed at removal of poverty and unemployment.

**ii. Agriculture Development Led Growth-(1985-90):**

The seventh plan spelt out that the planning activity had to be directed toward the elimination of poverty and creating conditions of near full employment, the basic needs of the people in terms of food, clothing and shelter, attainment of universal education and access to health facilities for all. In this context the seventh plan gave priority to increase agriculture production through more reliance on the new technology. It undermined the role of public sector and induced increasing privatization of industrial activity. Besides, the liberalization of imports aimed at raising efficiency in the manufacturing sector. And emphasis was shifted from regulatory to facilitatory procedures. It was expected from the agriculture led growth that the strong domestic linkages of agriculture with industry through both demand and inputs sides results in high domestic demand multipliers for agricultural output. In addition this has been recognized in the economic literature that an investment in the agriculture is less import intensive than in industry. Further, investment in agriculture has greater employment potential than that in industry. However, Irma Adelman has admitted that if these policy measures are not counteracted by large increase in output of wage goods will result in drastic drop in the agricultural terms of trade and transfer all the benefits of agriculture led industrialization to the urban industrial classes domestically. Thus, such policy requires supporting policies to partially counteract the internal terms of trade consequences of these policies.

### 1.7.6 Manmohan's Economics-Strategy based on Liberalization, Privatization and Globalization (1991):

This strategy of development emphasized on Liberalization, Privatization and Globalization (LPG). It was a diversion from the policies hitherto adopted. Here the process of indicative plan has been strengthened and the role of market has been enlarged. The economy was exposed to the international competition. The emphasis was placed on the productivity, efficiency and technology. The export led growth model was replaced by the import led growth. Specific elements of this strategy are discussed in the following paragraphs.

**i. Elements of LPG Strategy :**

- The areas hitherto reserved for the public sector were opened to private sector. In addition, by permitting the private sector to set up industrial units without taking a license, the government removed certain shackles which were holding back or delaying the process of private investment.
- The government decided to liberalize the policies towards the foreign capital and the economy was integrated to the world economy by reducing the tariffs and other restrictions.
- The public sector role, which was dominant in the earlier strategies, was reduced dramatically. Chronically sick public sector enterprises were referred to the BIFR for the formulation of the revival /rehabilitation schemes. To improve the performance of public sector enterprises, greater autonomy was given to PSU management and the Boards of Public sector companies were made more professional.
- The business houses were allowed to undertake investments without any MRTP limit.

Hence, the new strategy aims at reducing the role of the state significantly and thus abandons planning fundamentalism in favour of a more liberal and market driven pattern of development.

**ii. Evaluation of LPG Strategy :** By adopting this strategy the nation became an open economy, integrated with world economy. The impression was being given that this will lead to competitiveness, technological advancement and increase in efficiency and productivity. However, this policy has been criticized on many grounds;

- It largely concentrates on the corporate sector which account for a little proportion of GDP.
- The model ignores agriculture and agro- based industries which are major sources of generation of employment for masses.
- By permitting the MNCs in the consumer goods sector, the interests of the small sector have been largely ignored.
- The benefits of rising exports are more than offset by much greater rise in imports leading to a larger trade gap.
- The model emphasized on the capital intensive pattern of development and there are serious apprehensions about its employment-potential.
- The Japan did not follow the open door policies and liberalization to develop their economy. It applied limited operation of market mechanism with the state playing an active role in guiding the economy for the welfare of the community. So ours may not be the compulsion.

- The China's decision to globalize is motivated by the desire to use foreign markets as an instrument to resolve numerous internal bottlenecks.

This strategy raised serious doubts in the minds of people whether we are following the correct path of development. What has been happening to poverty and Inequality? The experience of more than a decade does not provide conclusive evidence of substantial improvement of these parameters. Rather some of them have become worse.

**Self-Check Exercise :**

Answer the following questions on the basis of above discussion.

(i) How will you define the LPG Strategy of development?

(ii) What type of development strategy was adopted during 1980-85?

(iii) Bring out basic elements of LPG strategy.

### 1.7.7 PURA Model-A Neo- Gandhian approach to Development:

Providing Urban Amenities in Rural Areas (PURA) is to propel economic development without population transfers. Instead of moving human beings where infrastructure exists, it is better to take infrastructure to villages where human beings live. The PURA concept is the response to the need for creating social and economic infrastructure which can create a conducive climate for investment by the private sector to invest in rural areas.

**i. Features of PURA Model :**

(a) PURA model involves four connectivities: physical, electronic, knowledge and economic connectivity to enhance the prosperity of cluster of villages in the rural areas.

- Under physical connectivity, a group of 15 to 25 villages will be linked to one another by road along with a ring road so that each one of them can use it. Besides roads, provision of electricity and transport facilities has also been included.
- Secondly, a digital connectivity which aims to link villages with modern telecommunication and information technology services, for instance, PCOs, cyber cafes etc.
- Thirdly, knowledge connectivity tries to establish on every 5 to 7 kms of the circular road a school, a higher education centre, a hospital.
- Fourthly, economic connectivity aims to establish within this group of villages good marketing facilities so that all the commodities and services of daily use can be procured and the rural people can sell their produce in these markets.

(b) Depending upon the region and the state of development, PURA can be classified into three different categories, namely Type A, Type B and Type C-PURA clusters. Type A is situated closer to the urban area having minimal road connectivity, limited infrastructure, limited support-school, and primary health centre. Type-B is situated near the urban areas but sparsely spread infrastructure and no connectivity. Type-C located far interior with no infrastructure, no connectivity and no basic amenities.

(c) The union government accorded in principle approval for the execution of PURA for bridging the rural-urban divide and achieving balanced socio-economic development in 2004.The government envisaged development of 4000 rural clusters located in backward regions. A sum of Rs. 3 crores for each cluster has been provided and thus, Rs 12000 crores will be spent on the development of 4000 PURAs.

(d) PURA draws its inspiration from the Gandhian model of development which emphasizes rural development as a fundamental postulate, yet in the prescription, it is neo-Gandhian in the sense, that it intends to bring rural regeneration with the objective of taking modern technology and modern amenities to the rural areas. It emphasizes the enlargement of employment of employment as the sole objective to make use of rural manpower in various development activities. In this sense, it does not think of a second grade status for rural citizens and can become more acceptable to them. In other words, the PURA model attempts reconciliation between employment and GDP growth objectives.

### 1.7.8 Summary:

It can be stated that during the first four decades the Nehru-Mahalnobis strategy of growth dominated the entire scene with some diversion during the Janata Party regime 1977. Economic circumstances emerged in the due course ultimately led the government to opt for the strategy based on liberalization, globalization, and privatization.

### 1.7.9 Long Answer type questions :

i. Critically discuss the basic strategy of Indian development planning.
ii. Nehru-Mahalanobis strategy helped to create the basic and heavy industry in India, in this context develop a logical reasoning.
iii. What is Gandhian model of development? Discuss its contents and implementation in India.
iv. What was unfavourable in the Nehru-Mahalanobis strategy that compelled the government to diverge from this strategy?
v. Discuss the Strategy of import-led industrialization Vs export- led industrialization from the Indian experience.

### 1.7.10 Short answer type questions:

Write short notes on the followings:

(a) Basic strategy of development in India during 80's.

(b) Heavy Versus light industry

(c) Gandhian model of development

(d) PURA

(e) Clustering approach in PURA

(f) Manmohanomics

(g) Agriculture led industrial development

(h) Growth and employment

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# Public and Private Sectors in India: Performance and Prospects

**Structure:**

**1.8.13 Long answer type question**

**1.8.14 Short answer type question**

**1.8.15 References**

## 1.8.1 Objectives of the lesson:

- to learn the need of public sector enterprises in India
- to study the growth of the public sector enterprises in India and their objectives behind
- to ascertain the role and performance of public sector enterprises in India
- to have a knowledge regarding the pattern of investments in the public sector enterprises
- to see the changing opinion towards public sector enterprises and the new policy towards them.

## 1.8.2 Introduction:

India adopted planning in a mixed economy framework to achieve economic growth and other desired goals. The development strategy chalked out assigned the public sector an important role in economic management. It became more pronounced following the adoption of Nehru-Mahalnobis heavy industry oriented planning strategy in the second five year plan (1956-61) as an operational follow up of Parliament's commitment to a *socialistic pattern of society* in 1954.The industrial policy of 1956, which followed this commitment, envisaged a catalytic role for the public sector in economic transformation. In the Industrial Policy Resolution of 1948 and 1956, some definite categories of industries were reserved for the public sector for their expansion and development. In this way, the sizes and activities of the public sector gained its momentum with the growing volume of planned expenditure for the development of public sector under different five year plans of the country.

Although the development of public sector in the Indian economy is quite important but there is nothing unique in it. Even the governments of various capitalist countries of the West have directly participated in the production and distribution as per their need. Prof. Samuelson has rightly observed that within the advanced countries themselves, the scene was drastically changed from the Victorian days of Laissez faire capitalism. Almost unconsciously, undiluted capitalism had been evolving into a mixed economy with both public and private initiatives and controls. The clock of history sometimes revolves so slowly that its moving hands are never seen to move. Thus in a mixed economy like India, some industries are owned and managed by the state through its public sector and the remaining others are owned and managed by the private sector of the country. The idea of the management of industries through state took place in India only after independence.

The policies followed after independence had given large weightage to the expansion industries through the public sector. Some industries were entirely reserved for the public sector; some were left completely for the private sector. Such division between the public and private sectors reveals that heavy, basic and strategic industries were reserved for the public sector, the entire group of consumer goods industries were kept for the private sector. The infrastructural fields like railways, air transport, ports, power, communications, banks, insurance, etc. were reserved for the public sector. The basic reason for the reservation had been derived from the fact that the Indian economy needed a big push that time to be on the development lines and the reliance on the private sector could not be possible due to the lack of funds, undertaking risks and the entrepreneurial capability. In this context the following were the objectives for the expansion of the public sector:-

- To promote the rapid economic development through creation and expansion of infrastructure.
- To accelerate the growth of the core sector of the economy.
- To serve the equipment needs of the strategically important sectors like railways, telecommunication, nuclear power, defence, etc.
- To control the emergence of the private monopolies.
- To ensure the easy availability of articles of high mass consumption, to check the prices of important products
- To generate employment for the educated unemployed.
- To generate financial resources for the further development.
- To promote balanced regional development.
- To promote exports on the one side and import substitution, on the other.

### 1.8.3 Development of Public Sector Enterprises in India:

As it has already been stated that the government came forward to create the required business enterprises, after independence they have specific role to play in the functioning of the Indian economy. Moreover, the successful experience of the many socialist countries had further enticed the Indian government to do the same. Since the proclamation of 1956 policy, the public sector started to receive a lot of additional facilities in respect of credit, physical resource allocation, foreign exchange, market preference etc. Public sector at present constitute a major national capabilities in terms of the scale of operations, coverage of the national economy, technological capabilities and stocks of human capital. These public sector enterprises cover all the following types of enterprises:

- Departmentally managed enterprises
- Statutory corporation

- Under the Companies act owned and managed at any level of government (i.e. union, state and local)

i. ***Central Government Enterprises:***

From a mere 5 public enterprises with capital stocks of Rs. 29 crores in 1951, the number has increased to 242, with the cumulative investments of Rs. 3,49,209 crores in 2004. The total investment is in the form of equity capital and long-term loans. This data reveals the tremendous growth witnessed by the central government enterprises; this is shown in the table-1: This capital further increased to Rs. 9,08,007 in 2009-10 and further Rs 9,49,499 in 2010-11 the number of running enterprises increased from 217 to 220 during the same period.

**Table 1. Performance of Central Public Sector Enterprises**

| Year | No. of Units | Capital Employed (Rs. Crores) |
|---|---|---|
| 2004-05 | 227 | 5,04,407 |
| 2007-08 | 214 | 7,24,009 |
| 2009-10 | 217 | 9,08,007 |
| 2013-14 | 234 | 17,10,453 |
| 2015-16 | 244 | 19,38,795 |
| 2017-18 | 339 | 23,15,707 |
| 2018-19 | 348 | 27,80,247 |
| 2019-20 | 366 | 31,16,455 |
| 2020-21 | 389 | 32,93,000 |
| 2021-22 | 389 | 35,21,000 |

*Source: Public Enterprises Survey (various issues)*

***ii. Pattern of Central Government Enterprises Investments:***

The public enterprise survey (2003-04) gives very interesting information regarding the distribution of cumulative investment in various components. Bulk of the investment is in the enterprises those are producing and selling goods; at the end of March 2004, over Rs. 2,13,392 crores, or 61.1% of investments were in these industries. Even here, bulk of the investment is in basic industries like steel, coal, power, petroleum, fertilizers etc. Nearly 37% of investment is in the enterprises rendering services. Among the services, the most important were financial services accounting for Rs. 74,165 crores (19.5%), followed by telecommunication services. All is presented in the table-2. As a result of deliberate policy of encouraging public sector, heavy

**Table-2: Pattern of Investment in the Central Government Enterprises (2006-07)**

| **Investment Category** | **Investment** (Rs. Crores) | **Percent of total** |
|---|---|---|
| **Enterprises under construction** | **1,463** | **0.3** |
| **Enterprise producing/selling goods** | **2,56,885** | **61.1** |
| **Enterprises producing services** | **1,62,689** | **38.6** |
| Grand Total | 4,21,037 | 100.0 |

**Source:** Indian Economy Ruddar Datt & KPM Sundhram (2009) investment was made in the public sector. Except for the short span of five years (1968-69 to 1973-74) in which the growth rate of investments was about 10%, throughout the rate of growth of investments averaged between 16 and 19% perannum.

***iii. Dominating Enterprises:***

In term of investments, National Thermal Power Corporation Ltd. topped (2004) followed by the Housing & Urban Development Corporation Ltd. But in terms of gross turnover in 2003, Indian Oil Corporation Ltd.topped the list with a total turnover of Rs.1,23,897 crores followed by HPCL Rs. 56,333 crores and BPCL Rs. 53,448 crores. Taking these three petroleum companies, it may be noted that they accounted for Rs.2,42,678 crores or 41.4% of total turnover of central public sector enterprises.

## 1.8.4 Role of Public Sector in the Indian Economy:

Since the dominating role was assigned to the public sector after independence, therefore, it becomes imminent to ascertain the role that the public sector has played in shaping the Indian economy on the growth path in terms of employment, capital formation, generating national income, creating economic and social infrastructure etc.In addition, it is important here to understand that could the public sector play the assigned role? In this section, an endeavor has been made in this regard.

***i. National Income and Public Sector:***

Public sector in India has been playing a definite positive role in generating income in the economy. The share of public sector in net domestic product at current prices has increased from 7.5% in 1950-51 to 24% in 1990-91. However, it declined to 21.7% in 2005-06. Public sector, therefore, account for about one fourth of national output. This is largely due to the rapid expansion of the public sector enterprises.

***ii. Public Sector & Capital Formation:***

This sector is playing an important role in the gross domestic capital formation of the country. The share of public sector in the gross domestic capital formation has increased from 3.5% during the first plan to 10.7% during the seventh plan. It further increased to 25% in the $9^{th}$ five year plan. However, the public sector is not playing a significant role in respect of mobilization of savings. The share of public sector in gross domestic saving increased from 1.7% of GP during 1951-56 to only 3.6% during 1980-85. This share became negative during 1999-00 and 2002-03. The basic causes for the decline of the share of public sector in total savings are: Rapid increase in the state expenditure, failure of the public sector enterprises to generate internal surplus and the self defeating efforts of the government to make up the shortfall in resources through excessive borrowing from the banking sector.

***iii. Public Sector & Employment:***

The employment in the public sector can be categorized in the (a) government administration, defence and other government services like health, education and various activities to promote economic development and (b) employment in the public sector enterprises of Centre, State and Local bodies. In 1971, the public sector offered employment opportunities to about 11 million persons and in 1992, their number rose to 19.2 million showing about 75% increase during this period. By 2003, its number came down to 18.6 million. Since the employment in the public sector is confined to the organized sector, the public sector employs more than 65% of workers employed in the organized in the Indian economy. It may be noted here that 52% of the total employment in the public sector was in government administration and community and personal services and the balance 48% was spread in other economic enterprises.

The dominant share of public sector in total employment in the organized sector is in transport and communication, electricity, gas and water and construction (9598 Percent). Hence, it can be inferred here that the public sector is a big employer so far as the organized sector of the Indian economy is concerned.

***iv. Public Sector & Infra-structure:***

Without the development of physical infrastructure the economic development is not possible. The public sector investment on infrastructure sector like power, transportation, communication, basic and heavy industries, irrigation, education and technical training etc. has paved the way for agricultural and industrial development of the country leading to the overall development of the economy as a whole. Private sector investments are also depending on these infrastructural facilities developed by the public sector of the country.

***v. Export Promotion and Import Substitution***

The public sector enterprises have been contributing a lot for the promotion of India's exports. The foreign exchange earnings of the public sector enterprises have been rising from Rs.35 crores in 1965-66 to Rs. 5,830 crores in 1984-85 and finally to Rs. 34,839 crores in 2003-04 and Rs.43,576cr. in 2005-06. There is no denying fact that the export performance of the public sector enterprises has been quite credible. Some public sector enterprises have done much to promote the India's exports. The State Trading Corporation and Minerals and Metal Trading Corporation have done a wonderful job of export promotion in all parts of the world, especially in the East European countries. Considerable success has been achieved in pushing up the exports of Indian handicrafts, light engineering goods and many new items of exports. Hindustan Steel Ltd., the Bharat Electronics Ltd. the Hindustan Machine Tools, etc. are some of the public enterprises which are exporting increasing proportion of their output and earning foreign exchange.

Besides, some public sector enterprises were started specially to produce goods which were formerly imported and thus to save foreign exchange. The entry of Hindustan Antibiotics Ltd. and the Indian Drugs and Pharmaceuticals Ltd. into the manufacturing of drugs helped India to save foreign exchange by producing these goods in India. Likewise, the ONGC and IOC are public enterprises which attempt directly to increase self- reliance of the country and reduce our dependence on imports.

***vi. Contribution to Central Exchequer:***

The Public sector enterprises are contributing a good amount of resources to the central exchequer regularly in the form of dividends, excise duty custom duty, corporate taxes etc. The public enterprises contributed Rs. 27,570 crores during sixth plan and as much as Rs. 1,33,780 crores during the eighth plan. From the annual average of Rs. 5510 crores during the sixth plan, the contribution of public enterprises has increased to Rs. 53,822 crores during the ninth plan. Out of this total contribution, the amount of dividends contributed only 2 to 4 per cent of it.

***vii. Checking the Concentration and Regional Disparities:***

The Expansion of public sector enterprises in India has been successfully checking the concentration of economic power into the hands of few and this is redressing the problem of inequalities in the distribution of income and wealth. Thus, the public sector can reduce the problem of inequalities through diversion of profits for the welfare of the poor people, undertaking measure for labour welfare and also by producing commodities for mass consumption.

Public sector enterprises of central government were set up in those regions which were underdeveloped and local resources were not adequate. The good examples are the setting up of three steel plants at Bhilai, Rourkela and Durgapur and the Neyveli Project in Madras which were meant to help industrialize the regions surrounding the projects. In certain cases, the State Governments were unable to raise adequate resources for the development of its regions. The only alternative available was the setting up of projects by the Central Government or to start enterprises which were financed by the centre.

Thus, the public sector has grown from every angle and has come to occupy a prominent place in the Indian economy. The foregoing discussion is related to the central public enterprises, we do not have much information on the state level enterprises, and hence, full information regarding the role of public enterprises can not be deciphered.

**Self check exercise**

1. Define public sector.

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2. Write note on export promotion and import substitution.

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### 1.8.5 Public Sector Performance:

Since public sector in India did not work only for the motive of profit, there are other objectives to satisfy with as stated in the foregoing discussion. Hence, the performance of these enterprises can not be judged from the profitability criteria. Therefore an effort has been made in this section to assess the performance of public sector enterprises from many perspectives.

***i. Profitability:***

What is the correct measure of profitability? It depends upon the purpose. From the view point of the private individual, the ratio of net profit to net worth may be appropriate, but it may be unsuitable to measure a PSE's contribution to the economy, for many reasons. *One*, PSEs usually have high depreciation cost since they have to invest not only in plant and machinery, but also in the social overhead capital, for which budgetary provisions are made. *Second*, a PSE's capital structure is not aimed to maximize return on shareholders' investment, but provision of goods and services that the market has not succeeded in supplying-the argument of 'missing market'. *Third*, very often PSEs start with a high proportion of debt as government expects a certain interest on its loans. When the enterprise commences production it is often saddles with a high debt-equity ratio, which is generally renegotiated to make the enterprise commercially viable. *Finally*, for the economy, what matters is not the capital structure but return on total capital employed. Thus, gross profit to capital employed is treated as the better measure which is used here to assess the performance in terms of profitability.

The profitability of central PSEs has increased from around 8% in the mid 1970s to 21% in 2003-04- a respectable figure by any reasonable reckoning. Such rosy estimates may conceal the effect of high mark up; cost based administered pricing in the performance of petroleum companies. Surely, net of the petroleum sector, the profitability is lower, but with an unmistakable rising trend, at 18% return on gross capital employed in 2003-04 it marginally declined to 20.9% ub 2006-07. Thus, the central PSEs as a source of non- departmental non- financial enterprises' poor financial position is ruled out, leaving us mainly with the utilities and infrastructure services at the state level- that is, state electricity boards and road transport corporations. In principle, public irrigation would belong to this category, as it accounts for a sizeable share of plan expenditure in most states. But as it is included in the administrative department, its accounts are not separately available, hence unable to consider here.

***ii. Employment and welfare:***

A bloated workforce often employed on non- economic considerations, is widely cited as a source of public sector inefficiency. But the evidence suggests that despite such pressures, the growth rate in public employment has declined drastically: from 6% per year in mid 1970s to a negative 1% in 2002-03 in public sector enterprises owned and managed by central government, in quasi public sector, and in the public sector as a whole as well. Without denying the need for further rationalization of the workforce, what can certainly be claimed is that public sector employment growth has got drastically reduced.

Next parameter to study the performance is the welfare gains to the employees in terms of emoluments, housing, medical care and educational facilities. Real wage per employee in the public sector went up from Rs. 28,820 in 1986-87 to Rs. 67,601 in 2002-03 (1982 prices). The annual growth rate of real wages work out to be 5.4 during this period. As on March 2003, 8.80 lakhs houses have been provided to 18.7 lakh workers. Besides, a total expenditure of Rs. 3060 crores in the form of maintenance of houses, educational facilities, medical care etc. was spent in 2001-02 for the benefit of the employees.

***iii. Output and Capital Formation:***

In spite of huge investments in the public investment the public sector enterprises contributed a little portion of the Net Domestic Product of the country. Although average rate of growth of investment in the public enterprises remained very high (16% to 21%) but the share of public sector enterprises remained in the NDP has been increasing at a very slow rate, i.e. from 3% in 1950-51 to 7.5% in 1970-71 and then to 14.4% in 1990-91. In addition, the share of public sector enterprises in gross domestic capital formation also has increased at a very slow rate i.e. from 3.5%during the first plan to only 10.7% during seventh plan period. Besides, the average capital output ratio (ACOR) declined overtime; it was 7.0 in 1981-82 and declined to 4.4 in 2001-02. It is arguable that the decline in ACOR could mean a shift in public investment to less capital- intensive activities. But this is not the case. In fact, the share of infrastructure in public sector gross capital formation-representing capital intensive industries-has increased from33.3% in 1973-74 to over 53.5% in 2001-02; the manufacturing sectors share has declined from 23.7% in 1974-75 to 5.5% in 2001-02. Thus, there is little basis to suggest a shift in public investment into less capital-intensive sectors; on the contrary, the investment composition has moved in the desired direction of infrastructure that is capital- intensive, away from manufacturing. Thus the public sector has shown also remarkable progress that has gone virtually unnoticed. What could account for improvement? It suggests that decline in what Leibenstein called X-inefficiency (in production and organization), and a deceleration in investment and employment.

***iv. Public Sector Savings:***

The public sector gross saving, as a proportion of current gross domestic product at market prices peaked at 4.9% in 1976-77, declined thereafter, turning negative in 1998-99. But much earlier in 1986-87 the saving ratio of government administration turned negative, which is the same as the government revenue deficit ratio. It is the non departmental enterprises' saving that has kept the public sector saving positive for over a decade. The breakup of non departmental enterprises' saving into (i) non- departmental financial enterprises (NDFEs) that are part of the banking and financial system, and (ii) non- departmental nonfinancial enterprises (NDNFEs) that comprise public entities producing goods and services at all level of government. Over the four decades, savings of the nonfinancial enterprises contributed a greater share of NDEs savings; the financial sector's share is consistently lower.

## 1.8.6 Constraints on performance of Public Enterprises:

The poor performance of public enterprises can be related to a number of constraints which inhibited their operation. Some of these are explained here.

**(i) *Unutilized Capacity*:** Due to the power shortage, fluctuation and failure, industrial unrest, lack of balancing equipment, equipment breakdown, inadequacy of demand, inadequacy or poor quality of raw materials, design deficiency etc. were the major factors behind the underutilization of the capacity in the public sector enterprises and led them to the under performance.

**(ii) *Hierarchy of relations with the Government*:** The internal contradictions inherent in the form of management which have manifested themselves in a number of ways that have affected the performance of public enterprises. The government from the very beginning adopted bureaucratic structure and form of management evolved. At the top of the pyramid is the administrative ministry concerned, represented by the people by the higher civil services. This level represents the government as the owner. Below it is the Board of Directors on which the government is represented at least by a departmental secretary from the concerned administrative ministry, and by a functioning from the ministry of finance. At the third level is the chief executive of the company. The top level bureaucratic elements often prevent internal mobility of professional elements. This is further aggravated by the frequent political interference at the highest level, which has led to brain drain from the public to the private sector. These contradictions have often found expression through the controversy concerning autonomy of the management of enterprises in relation to government control.

**(iii) *Constraint on Commercial Freedom and Problems of Coordination*:** The adverse effect of government control is reflected in the long drawn procedure of project sanctioning. These procedures delay decision-making, which ultimately result in implementation delay and cost escalation. The fundamental difference between the administrative and industrial management has not been fully appreciated in the public sector. People with secretariat need to understand that industrial management, confronted with problems of production, changes in technology, operational bottlenecks, varying market conditions and uneven flow of essential inputs, requires decision-making. Another significant government control has been the enforcement of pricing policy often unrelated to the economic viability of the units. In addition, with the rapid expansion and diversification of the public sector, the problem of co-ordination has assumed serious proportions. More and more output of one undertaking has become dependent on the inputs from the other undertakings. In such circumstances, lack of co-ordination has an adverse effect on the economy.

**(iv) *Employment Practices:*** The existence of surplus staff in Indian public enterprises is well-known phenomenon. The reports of various committees on public undertakings are replete with evidence in this regard, for example, the Indian railways, steel plants, fertilizer plants, and chemical plants.

**(v) *Pricing Policy*:** Three different types of pricing in public enterprises can be distinguished in terms of motivation. These are: (a) resource-oriented prices, (b) promotion oriented or policy prices as also impact oriented prices might constrain the performance of public enterprises where the external economies of an enterprise significantly outweigh the merits of its own accounting surplus, relatively low prices constituting an indirect subsidization of the beneficiary activities may be preferred. This means that certain enterprises are directed or persuaded to operate on the lower than possible price on the considerations evaluated by the government.

**(vi) *Utilization of Internal Surpluses*:** It has already been shown that the extent of internal surplus which is deployed for the expansion of self financing schemes is very low.

**(vii)** ***Relation with the Labour Force*:** It is observed that while the gap in salary differentials between the skilled workers and management in public enterprises is not wide. As a matter of fact, the condition of unskilled workers is found to have been no different from that of their counterparts in the private sector. It is also observed that in a large number of public enterprises, the share of wage earners in the total wages and salaries bill has declined, indicating an improved position of the salaried class in relation to wage earners. Besides, the working class has received little recognition to the progress of the public sector. They feel alienated and try to fight alienation and feeling of powerlessness by displaying negative attitude, indifference in work and defiance towards authority within the enterprise.

**(viii)** ***Access to Scarce Resources*:** One of the most critical resources which usually inhibit the performance of public enterprise is access to the right type of technology. Given the technology gap, public enterprise units have to opt for foreign technology which brings in its wake technological dependence. Some of the studies indicate that public enterprise had to depend on multinational corporations under unfavourable terms and conditions and ended up with inappropriate technology both in terms of product type and factor use.

### 1.8.7 New Opinion towards Public Sector Enterprises:

There was a time when most of the Indian people were very much in favour of public sector enterprises even without going into details of this sector. But with the gradual increase in the volume investment at a very high level, increasing volume of losses by some of the enterprises along with overall low rate of return on the capital employed, the general opinion has now been turning towards a different direction. Following are the reflections in these directions;

(a) In spite of its huge investments public sector could not contribute a satisfactory rate of return compared to private sector enterprises, thus the public sector enterprises in India are gradually becoming less attractive and less popular leading to erosion of faith of the general people on this sector.

(b) Constant under-utilization of production capacities in almost all the public sector enterprises in India forced the sector to become totally inefficient leading to an erosion of images of huge organization before the people.

(c) Increasing unaccountability of public sector management to the general people due to inefficient political system makes it totally ineffective.

(d) Increasing volume of losses incurred by the loss incurring enterprises along with their increasing number make the sector totally burdensome to both the people and to the government as huge budget is now required to run such enterprises.

In this context, the foregoing discussion has put a question mark on the continuing with the public sector enterprises in the present form. Therefore, the government came forward with a new policy towards public sector enterprises in 1991. It is as under:-

(i) The public sector investments will be reviewed with a view to focus the public sector on strategic, hi-tech and essential infrastructure. Whereas some reservation for the public sector is being retained, there would be no bar for area of exclusivity to be open up to the private sector selectively. Similarly, the public sector entry in areas not reserved for it.

(ii) Public sector enterprises which are chronically sick and which are unlikely to be turned around will, for the formulation of revival/ rehabilitation schemes, be referred to the Board for Industrial and Financial Reconstruction (BIFR), or other similar high level institutions created for the purpose. A social security mechanism will be created to protect the interests of workers likely to be affected by such rehabilitation packages.

(iii) In order to raise resources and encourage wider public participation, a part of the government's share holding in the public sector would be offered to mutual funds, financial institutions, general public and workers.

(iv) Board of public sector companies would be made more professional and given greater Powers.

(v) There will be greater thrust on the performance improvement through the memoranda of understanding (MoU) system through which managements would be granted greater autonomy and will be held accountable.

**Self check exercise**

3. Explain the performance of public sector in India?

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4. Write down constraints in the performance of public sector in India.

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## 1.8.8 Private Sector in India

Business firms are organized through private sector, public sector or joint sector with participation of both public and private sector. Private sector and public sector firms are organized with different objectives. The private sector is characterized by the private initiative, profit motives, ownership and management in private hands. This sector includes different types of individual or corporate enterprises, both domestic and private, engaged in different fields of activity. The Indian government, after independence opted for mixed economy in which both the public sector and the private sector were allowed to operate. In the industrial policy documents of 1948 and 1956, though many areas were reserved for the public sector where strategic and basic development need of the nation was important. Rests of the production areas were open for the private sector. Even the government recognized the mutual dependence of the public and private sector. Hence, the role, performance and prospects of this sector in Indian economy deserved to be examined. Unlike the past, when laissez faire policy was in vogue, modern private sector is in the form of corporate which are owned by the share holders and managed by the professional managers, where they are not only guided by the profit motive but also by expansion, consolidation, arousing social consciousness, social responsibilities, social welfare etc. Therefore the private sector has larger role to play in the economic functioning of the nation. Hence from time to time, keeping economic philosophy in mind, the government came forward to shackle and unshackles the growth of private enterprises in India, which we will discuss in detail in due course.

### 1.8.9 Growth of Private Sector in India:

At the dawn of the independence, almost the entire productive activities and trade were owned and managed by the private sector. At that time the role of public sector was insignificant and its activities were very much confined to irrigation, power, railway, ports, ordinance, posts and telegraphs etc. After independence, the activities of the public sector began expanding and started to play significant role in different areas. Even after the huge expansion of the public sector, the private sector still continued to play a dominant role in all spheres and thereby accounting nearly 80% of the gross domestic product and about 90% of the total employment. In narrow sense, private corporate sector provides a picture about the private sector. Thus, it is quite important to study the growth of private sector in comparison to that of public sector.

**Table-1: Growth of Private Sector in India**

| | 1957 | 1971 | 1991 |
|---|---|---|---|
| No. of Companies | 29357 | 30,461 | 2,20,721 |
| (i) Government | 74 | 314 | 1,179 |
| (ii) Non- Government | 29,283 | 30,147 | 2,19,452 |
| Paid-Up Capital (Rs. Crores) | 1,078 | 4,423 | 68,110 |
| | (100.0) | (100.0) | (100) |
| All Companies | | | |
| (i) Government Companies | 73 | 2,074 | 49,424 |
| | (6.8) | (46.9) | (72.6) |
| (ii) Non-Government Companies | 1,005 | 2,349 | 18,686 |
| | (93.2) | (53.1) | (27.4) |
| Figures in brackets are percentages | | | |

Source: Dhar (2006)

The table-1 depicts the relative status of the public and the private sector in the Indian economy. As far as the numbers of the companies are concerned the rate of growth of the public sector companies was much faster than that of private sector companies. Moreover, the paid up capital of government companies jumped up from only Rs. 73 crores in 1957 to Rs. 49,424 crores in 1957 to 18,686 crores in 1991. The share of government companies in total paid up capital of all companies increased significantly from a mere 6.8% in 1957 to 72.6% in 1991. But the share of non-government companies in total paid up capital of all companies declined from 93.2% in 1957 to 29.4% in 1991.

In the post-1991 period, the investment scenario in the private sector is buoyant and upward moving as economic reforms in favour of private sector introduced. The number of industrial entrepreneurs' memorandum (IEMs) and Letter of Intent (LOIs) filed from 1991 to 2000 totaled 44,446 with overall investment intention of Rs.9,57,824 and estimated employment potential of 7.73 million. In addition, in the state wise distribution of private sector companies, Maharashtra recorded the largest concentration of private sector companies followed by the West Bengal, Delhi, Tamil Nadu, Gujarat Karnataka and Andhra Pradesh. Among the private sector corporate units, the largest activity in terms of paid up capital is in processing and manufacture of metals and metal products and then is followed by the chemicals, textiles, leather and leather products, food stuffs and processing, commerce, agriculture and allied industries, construction utilities etc.

**Role & Performance of Private Sector in India:**

The private sector has been playing a dynamic role in introducing new products, new varieties, new processes, new designs etc. and thereby updated the entire production system. Hence private sector is playing an important role, directly or indirectly, the gainful functioning of the economy; it is studied as follows;

***i. Industrial Development:***

During the pre-independence period, private sector has played a responsible role in Indian economy where they set up and expanded the cotton and jute textiles, sugar, paper, edible oil, tea etc. After independence when the government stressed on the industrialization of the economy the private sector again invested in the wide range of intermediate goods including machine tools, chemicals, paints, plastic, ferrous and non- ferrous metals, automobiles, electronics and electrical goods etc. Hence, the private sector has developed the consumer goods industry, producing durable and non- durable and became self sufficient in the production of different types of goods.

***ii. Trading:***

Almost all the trading activities-both wholesale and retail are managed by the private sector in the best possible manner. But in the period of scarcity of essential commodities, the private businessmen have their natural tendency in resorting to hoarding and black-marketing of such commodities leading to exploitation of the consumers. In order to control such practices the government has developed some regulatory mechanism in the form of control on prices, movement of goods and on storage etc. In a large country like India government might not be able to go for trading so it is the private sector that has played significant role in the distribution of goods to the ultimate destinations through retail and wholesale outlets.

***iii. Growth and Development:***

In Western countries private entrepreneurs have played an important role in economic development so much so that Schumpeter has characterized them as the initiator and moving force behind the industrialization process. The private sector is guided by the profit motive. He is responsible for the introduction of new commodities, new techniques of production, assembling the necessary plant and equipments, labour force and management and organize them in the going concern. The private entrepreneur acts as an innovator who revolutionizes the entire method of production. Such activities help the process of industrialization and economic development. It was because of this reason that the industrial policy resolutions of 1948 and 1956 of the government gave the immense opportunities to the private sector to expand its activities. In post 1991, the private sector has been assigned the dominant role in the industrial development.

***iv. Infrastructure:***

Although, the major areas of infrastructural sector lies in the hands of public sector but still the private sector is participating in those areas which remain open for it. Private sector is playing important role in respect of road transport, water transport etc. from the very beginning. But after the introduction of the new economic policy, the areas like power generation, air transport etc. are opened for the private sector. The private sector is actively participating in these areas through Build Operate and Transfer (BOT) basis.

***v. Small Scale Industries:***

The industrial policy resolutions have exclusively reserved the small scale sector for the private sector. These units are labour intensive and needs small quantity of capital, therefore deserved to be strengthened given the resources of the nation. Personal initiative plays a decisive role in small scale industries. Given the small capital at the disposal of the entrepreneurs they use these resources efficiently for the earning of maximum profit. Such management is not available with the public sector enterprises. The government has reserved large number of items to be produced in the small scale sector. This sector is granted loans at the concessional rates of interest and the marketing outlets are also provided. In addition, industrial estates have been established at various places where all facilities are provided under one roof to the small scale industries.

***vi. Dominant Sector:***

The importance of this sector can be visualized from the fact that it contributes to the major portion of national income and employment. The private sector contributes $3/4^{th}$ of the national income as compared to $1/4^{th}$ by the public sector. The role of private sector is quite dominant in the agriculture and allied activities, small scale sector, retail trade etc. Besides, the percentage of population working in the government sector including the public enterprises and the administration is less than 8% and the remaining population is engaged in the private sector. Thus, even after making a huge volume of investments in the public sector and five decades of planning, Indian economy is still broadly based on the private sector.

***vii. Efficiency and Profitability:***

As such there are no data at the aggregate level to throw some light on the profitability and efficiency of the private sector in India. Before 1991, the private sector grew under the controlled regime where the capacity, prices, marketing, production etc. everything was controlled through various regulatory mechanism. Therefore, the actual potential of the private sector could not be achieved. Investors were more concerned towards rent seeking instead of productivity and X-efficiency. Hence, the actual profitability and efficiency did not occur. This is very difficult to speak in macro terms; it is possible through the disaggregated study of the industrial sector in the private sector which is area of vigorous research and beyond the scope of this study material here.

Post-1991 government adopted the liberal policy towards the private industrial sector and they were given free hand to expand their business. The milieu of competition has been created that has enforced the private corporate sector to perform on the front of efficiency rather than rent seeking. The companies improved in size overtime and started enjoying the economies of scale and scope. Many of our companies acquired the status of Indian multinations. They acquired the many manufacturing units overseas and takeover raids are made by them. The data from various sources as the stock market, annual reports of the companies, their financial statements are indicating that private corporate sector is performing in terms of profits and efficiency. They are endeavoring to stay in competition.

**Self check exercise**

5. Explain the performance of private sector in India?

______________________________________________

______________________________________________

6. Write down constraints in the performance of private sector in India.

______________________________________________

______________________________________________

### 1.8.10 Large Scale Private Sector in the form of Corporate Giants:

Though, initially government came forward with the policies to discourage the concentration of the industrial wealth in few hands. It introduced regulatory and the monitoring mechanism in this context. Still in the controlled regime through the rent seeking and the manipulation of the loopholes of the government policies- some industrial houses emerged as giants in the Indian economic system and concentration of the industrial wealth took place. In addition, the new industrial policy announced in 1991 abolished industrial licensing and opened the economy considerably. As a result, the private sector registered a fast growth in the post liberalization phase. The opening up of the economy to the foreign competition has also forced considerable restructuring of the private corporate sector via consolidation, mergers and acquisitions. Here is the depiction of top 10 private companies in 2016-17 in the Table-2. This Picture has however changed over the period of time.

**Table No. 2**

**Table-2: Top Ten Private Sector Companies 2021-22 *(Rs. Crores)***

| Company | Total Revenue | Total Assets | Net worth | Profit |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| Reliance Industries | 7,39,518 | 12,22,627 | 7,79,485 | 60,705 |
| Tata Motors | 2,80,027 | 2,21,106 | 44,561 | -11,441 |
| Tata Steel | 2,53,797 | 2,07,633 | 1,13,546 | 40,154 |
| Hindalco Industries | 2,06,795 | 1,52,037 | 78,191 | 13,730 |
| Tata Consultancy Services | 1,95,772 | 1,00,023 | 88,651 | 38,327 |
| HDFC Bank | 1,67,695 | 21,22,934 | 2,47,326 | 38,053 |
| Larsen & Toubro | 1,60,962 | 2,21,833 | 82,408 | 8,669 |
| ICICI Bank | 1,57,536 | 17,56,355 | 1,78,824 | 25,110 |
| JSW Steel | 1,52,420 | 1,44,039 | 67,297 | 20,665 |
| HDFC | 1,44,938 | 7,00,090 | 1,79,853 | 22,595 |

**Source:** Fortune 500, 2022.

As is clear from the table-2 and later on, in table-2a.the largest industry in the private sector in terms of net sales in 2005 was Reliance Industries. In terms of assets also the company ranked first. Besides, the company ranked first in terms of operating profit and net profits. In terms of assets the Tata Steel ranked second followed by the Hindalco. It is clear from the table that the three companies in terms of assets in 2005 were Reliance industries, Tata Steel and Hindalco. In terms of net profit, top three companies in 2005 were Reliance Industries, Tata Steel and Tata Motors.

### 1.8.11 Problems and Limitations of the Private Sector:

In spite of achieving huge mile stones in the path of economic development, private sector has manifested some weaknesses of its own. The very objectives of private sector created many problems for the private sector itself and to the national economy. In this section, an attempt has been made to identify such points.

**i. *Profit Motive:***

The sole motive of the private sector is to earn super normal profits without bothering the investment needs of the national economy. They invest in the quick profit yielding areas, therefore, they tend to invest in the consumer goods industries and ignore investment in the areas of building up of proper industrial infrastructure. This process has lead to the distorted product mix and the public sector bore the responsibility of developing the capital goods and basic industries and industrial infrastructure. A number of economists allege that in the initial phase of industrial development, the private sector was not willing to shoulder the responsibility of a *prime mover* of economic development processes.

Even in the consumer goods sector, the focus of the private sector is on the elite consumer groups since this is the consumer group which has ample purchasing power. Thus, the production pattern is skewed in favour of the relatively small richer section of the society. Some economists allege that this implies the wastage of economic surplus of the country on unnecessary industrial activities while the core economic activities suffer.

***ii. Emergence of the Monopoly Power and Economic Concentration:***

Indian economy with meager resources at its disposal opted for planned economic development after independence. Here the idea was to share the fruits of development with the lower strata of the society. But this did not happen as it was expected, the Mahalnobis Committee pointed out in 1964 that the operation of the system had actually resulted in increase in the concentration of wealth and economic power. Similar conclusions were arrived at by the Monopolies Enquiry Commission in 1965. These tendencies have further been strengthened by the substantial liberalization of industrial policy which has enabled business houses to amass considerable wealth with the result that concentration of economic power has further increased.

***iii. Infrastructural Bottlenecks:***

Severe capacity shortfalls, poor quality and high cost of infrastructure continue to block the development of industry in the private sector. The most important infrastructural constraint is power. Industry surveys have found that acute power shortage, unscheduled power cuts, erratic power quality, delays and informal payments required to obtain new connection, and very high energy costs hurt the industry performance and the competitiveness.

The second most important infrastructural constraints is transport. While India has one of the most extensive transport systems in the world, there are severe capacity and quality constraints. It is lacking expressways linking major economic centers. The poor riding quality and congestion result in truck and bus speeds on Indian highways that average 30-40 kilometers an hour, about half the expected average speed. India’s high density rail corridors also face severe capacity constraints, compounded by poor maintenance.

***iv. Industrial disputes:***

The private sector in India is suffering from the poor industrial relations. Since independence, the country has been experiencing a good number of large scale strikes and lockouts leading to valuable loss of man days as well as production. Industrial disputes in the private sector of the country is mostly resulted from the issues like wages and allowances, bonus, working hours, leave privileges, victimization of workers, retrenchments, recognition of unions etc.The incidence of the industrial disputes is much higher in private sector as compared to the public sector.

***v. Industrial Sickness:***

This is a serious problem confronting the small, medium and large units in the private sector. Substantial amount of loan able funds of the financial institutions is locked up in sick industrial units causing not only wastage of resources but also affecting the healthy growth of the industrial economy adversely. The sickness in the Indian private sector emerges from the factors (a) which are not under the control of the unit concerned such as power cuts, recession, erratic availability of inputs, government policies etc. (b) factors which originate within the unit and can , therefore, be said to be under the control of the unit such as production, management, finance etc.

***vi. Problems of Finance and Credit:***

Although the large scale industrial corporate units of the private sector are mobilizing their fund from banks, development financial intuitions and from the market through sale of their equities or debentures but the small scale units are facing acute problem in raising fund for their expansion. Since the rate of capital formation in the economy is low and the capital market is in underdeveloped state, private sector enterprises are facing severe problem of arranging funds. The industrial finance intuitions have filled the gap to some extent but the problem continues to be enormous.

***vii. Foreign Competition:***

The process of liberalization started in 1991 has opened the gates to foreign investors and the government has progressively introduced measures to open up the economy to foreign competition. This process of globalization and integration of the Indian economy with world economy has led to an unequal competition. In the early euphoria of globalization, the private sector welcomed the measures of the government, but it soon came to realize that the opening up of the Indian economy to the foreign competition meant not only more and cheaper imports and more foreign investments but also opportunities to MNCs to raid and take over their enterprises.

### 1.8.12 Summary:

After independence the primary role for the development of the national economy was assigned to the Public sector and the private sector was kept at the secondary level. It was only in the 6th five year plan and onwards this is assigned the much responsibility. Besides, the private sector has picked up in terms of number of units, capacity building and the raising more resources from the primary capital market. The government took some measures to let the private sector expand by providing automatic expansion of the capacity, providing special incentives to export oriented units, Exemption from MRTP restrictions, liberalizing the licenses, imports and pricing policies etc.Thus, the new policy has assigned a greater role on the private sector by removing restrictions and controls and introduced a liberalized regime for the private sector of the economy.

Therefore, the prospects of the private sector in the future development programme of the country is quite bright under new liberalized regime. Private sector has now been allowed to participate in those basic, difficult and strategic areas to compete with public sector of the economy. This is quite a challenging situation before the private sector of the country. It is expected that the private sector will be able to accept this challenge and prove its worth within the definite time frame.

### 1.8.13 Long answer type questions:

(1) What are the basic reasons behind the high priority given to the public sector enterprises? What role did they play in the economic progress of the nation?

(2) Discuss development of the public sector enterprises in India. Justify their growth in the Indian economy.

(3) What are the stated objectives of the public sector enterprises? Were they able to achieve them, discuss with the help of various performance variables.

(4) Public sector enterprises remained underperformed during the entire period after independence. What is the policy measures adopted in the recent years to view of this?

(5) Discuss dominating factors that did not let the public sector enterprises to perform to their capacity.

(6) Explain major changes in the policy direction of the government towards PSEs in India.

(7) What do you mean by the private sector in India? Analyze the growth of private sector in India.

(8) Discuss emergence of private corporate giants in India. To what extent state is responsible for their such position? What problems they face in Indian economic set up.

(9) Account for the role and performance of the private sector in India since independence under various policy regimes.

(10) Do you support the common view of the large prospects of the private sector in India? Give arguments.

### 1.8.14 Short answer type questions:

(a) Define private sector

(b) Difference in the objectives of public and private sector

(c) Corporate giants in India

(d) Efficiency and profitability in the private sector

**Write short notes on following :**

(a) Organizational forms of public sector enterprises in India

(b) Objectives of public sector enterprises

(c) Pricing in public sector enterprises
(d) Patterns of investments in public sector enterprises
(e) Profitability of public sector enterprises
(f) Labour unrest in the public sector enterprises
(g) Wage structure in public sector enterprises

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