Chapter-2 Indian Economy 1950-1990
(Indian Economic Development)

After independence, the leaders of independent India had to decide – the type of '**economic system'** most suitable for our nation, a system which would promote welfare of all rather than a few. Nehru and other leaders of the newly independent India, sought an alternative to the extreme types of capitalism and socialism practiced in the world elsewhere. They formed an economic system which combined the best features of both Capitalist and Socialist Economy. As a result, **India adopted 'Mixed Economic System'** for its development. In this view, India would be a socialist society, with a strong public sector, but also with private property and democracy; the government would plan for the economy with the private sector being encouraged to be part of the plan effort.

The '**Industrial Policy Resolution' of 1948** and the **Directive Principles of the Indian Constitution** reflected this outlook.
In 1950, the Planning Commission was set up with the Prime Minister as its Chairperson.
In 1951-56 the First Five Year Plan was laid out.

Note: **Economic System** refers to an arrangement by which central problems of an economy are solved.

Types of Economic System or Economies:
Every society / country has to answer three questions – What to produce (i.e. deciding combination of goods and services to be produced), How to produce (i.e. deciding technique of production viz labour intensive or capital intensive to be used for production) and For whom to produce (i.e. deciding distribution of goods and services among people). The answer to these questions lies in the adoption of any one of the following types of economic system:

1) **Capitalist or Market Economy** – It is the one in which the means of production are owned, controlled and operated by the private sector. Production is done mainly for earning profits. So, the central problems (what, how and for whom to produce) are solved through the market forces of demand and supply. This implies that in a market economy only those consumer goods will be produced that are in demand, i.e., goods that can be sold profitably either in the domestic or in the foreign markets.
   In a capitalist society the goods produced are distributed among people not on the basis of what people need but on the basis of Purchasing Power—the ability to buy goods and services.
2) **Socialist or Centrally Planned Economy** – It is the one in which the means of production are owned, controlled and operated by the government. The government decides what, how and for whom to produce in accordance with the needs of the society. Social welfare is the guiding factor for the decision making. This implies that in a socialist society the government decides what goods are to be produced in accordance with the needs of society. The desires of individual consumers are not given much importance and the government decides how goods are to be produced and how they should be distributed in accordance with the principle that what people need and not on what they can afford to purchase.
3) **Mixed Economy** – It is a combination of a free market economy and a socialist economy. It has the co-existence of private sector and public sector side by side. In mixed economy, the government and the market together answer the three questions of what, how and for whom to produce. In a mixed economy, the market will provide whatever goods and services it can produce well, and the government will provide essential goods and services which the market fails to do so.
   Most economies are **mixed economies**.

Plan: A plan spells out how the resources of a nation should be put to use. It should have some general goals as well as specific objectives to be achieved within a specified period of time.

- In India plans are of five years duration and are called **five-year plans**. (The concept of five-year plans was borrowed from the former Soviet Union)
- Our plan documents not only specify the objectives to be attained in the five years of a plan but also what is to be achieved over a period of twenty years. This long-term plan is called '**Perspective Plan'**. The five-year plans are supposed to provide the basis for the perspective plan.
- It will be unrealistic to expect all the goals of a plan to be given equal importance in all the plans. In fact, **the goals may actually be in conflict**. For e.g. the goal of introducing modern technology may be in conflict with the goal of increasing employment if the technology reduces the need for labour (due to the use of capital-intensive technology). Thus, planners have to balance the goals. We find different goals being emphasised in different plans in India.

Prasanta Chandra Mahalanobis: The Architect of Indian Planning

Planning, in the real sense of the term, began with the Second Five Year Plan. The Second Plan, a landmark contribution to development planning in general, laid down the basic ideas regarding goals of Indian planning; this plan was based on the ideas of Mahalanobis. In that sense, he can be regarded as the **architect of Indian planning.**

Mahalanobis established the Indian Statistical Institute (ISI) in Calcutta and started a journal, ***Sankhya,*** which still serves as a respected forum for the statisticians to discuss their ideas.

☐ **NITI Ayog:** NITI (which stands for **National Institution for Transforming India**) Ayog was established in 2015 replacing 65-year-old Planning Commission. It is a policy think tank, established with the aim to achieve sustainable development goals with cooperative federalism by fostering the involvement and participation of State Governments of India in the economic policy making process.

The Goals of Five-Year Plans are - Growth, Modernisation, Self-reliance and Equity.

1. **Growth:**
   - It refers to **increase in the country's capacity to produce the output** of goods and services within the country.
   - Growth implies either
     - a larger stock of productive capital,
     - or a larger size of supporting services like transport and banking,
     - or an increase in the efficiency of productive capital and services.
   - A good indicator of economic growth is **steady increase in the GDP** (Gross Domestic Product) (GDP refers to the market value of all final goods and services produced within the domestic territory of the country during a year.)
   - The GDP of a country is derived from the different sectors (namely the agricultural sector, the industrial sector and the service sector) of the economy. The contribution made by each of these sectors to the GDP makes up the **structural / sectoral composition** of the economy.

2. **Modernisation**:
   - It refers to the **adoption of new technique of production** to increase the production of goods and services by the producers.

For e.g. A farmer can increase the output on the farm by using new seed varieties instead of using the old ones. Similarly, a factory can increase output by using a new type of machine.

- Modernisation does not refer only to the use of new technology but also to **changes in social outlook** such as the recognition that women should have the same rights as men. In a traditional society, women are supposed to stay at home while men work. On the other hand, a modern society makes use of the talents of women in the work place — in banks, factories, schools etc.— and such a society in most occasions is also prosperous.

3. **Self-reliance:**
   - It refers to promotion of economic growth and modernisation by ***using nation's own resources*** rather than by using resources imported from other nations.
   - The first seven five-year plans gave importance to self-reliance which means **avoiding imports of those goods which could be produced in India itself.**
   - The policy of self-reliance was considered a necessity:
     - in order **to reduce our dependence on foreign countries, especially for food as** India had quite recently gained freedom from foreign domination.
     - Further, it was also feared that a **dependence on imported goods** like food supplies, foreign technology and foreign capital **may make India's sovereignty vulnerable** to foreign interference in our policies.

4. **Equity**:
   The objectives of growth, modernisation and self-reliance, by themselves, may not improve the kind of life which people are living. A country can have high growth, the most modern technology developed in the country itself, and also have most of its people living in poverty. So, in addition to growth, modernisation and self-reliance, **equity** is also important:
   - **to ensure that the benefits of economic prosperity reach the poor sections as well** instead of being enjoyed only by the rich.
   - **Every Indian should be able to meet his or her basic needs** (such as food, a decent house, education and healthcare) and
   - Inequality in the distribution of wealth should be reduced.

Study of government's attempts to attain these four goals through the first seven five-year plans (1950-1990) w.r.t. agriculture, industry and trade and their assessment

Agriculture

During the colonial rule there was neither growth nor equity in the agriculture sector.

To address the **issues of growth and equity in agriculture**, the government took up:

1. Land reforms (Institutional reforms) – for promoting equity in agriculture
2. Technological reforms (Green Revolution) – for increasing productivity

1. **Land Reforms (or institutional reforms):** It primarily refers to change in the ownership of land holdings. The need for the land reforms arises due to the following reasons -
   - At the time of independence, the land tenure system was characterised by intermediaries such as *zamindars*, who merely collected rent from the actual tillers without contributing towards improvements on the farm.

- The low productivity in the agricultural sector forced India to import food from United States of America.
- The agricultural sector accounted for the largest share of workforce (70-75%).
- **To achieve the objective of equity in agriculture.**

Various Land Reform Measures

i. **Abolition of Intermediaries or Zamindari system –**

- The policy of '***land to the tiller'*** was adopted and steps were taken to abolish intermediaries and to make the tillers the owners of land.
- The idea behind this move was that ownership of land would **give incentives to the tillers to invest** in making improvements provided sufficient capital was made available to them as it enables the tiller to make profit from the increased output.

Merits

a. The abolition of intermediaries meant that some 200 lakh tenants came into direct contact with the government — they were thus freed from being exploited by the zamindars.
b. The ownership conferred on tenants gave them the incentive to increase output and this contributed to growth in agriculture.

Demerits

The goal of equity was not fully served by the abolition of intermediaries because -

a. In some areas the former zamindars continued to own large areas of land by making use of some loopholes in the legislation
b. There were cases where tenants were evicted and the landowners claimed to be self-cultivators (the actual tillers), claiming ownership of the land.
c. Even when the tillers got ownership of land, the poorest of the agricultural labourers (such as share croppers and landless labourers) did not benefit from land reforms.

ii. **Land ceiling act** -

- This means **fixing the maximum size of land which could be owned by an individual.**
- The purpose of land ceiling was to reduce the concentration of land ownership in a few hands and promote equity in the agricultural sector.

Demerits

a. The land ceiling legislation was challenged by the big landlords in the courts, **delaying its implementation**. They used this delay to register their lands in the name of close relatives, thereby escaping from the legislation.
b. The legislation also had a **lot of loopholes** which were exploited by the big landholders to retain their land.

Conclusion: Land reforms **were successful in Kerala and West Bengal** because these states had governments committed to the policy of land to the tiller unlike in other states as they did not have the same level of commitment and vast inequality in landholdings continues to this day.

2. **Green Revolution (or Technological Reforms):** *This refers to the large increase in production of food grains resulting from the use of high yielding variety (HYV) seeds especially for wheat and rice along with the use of fertiliser and pesticide in the correct quantities as well as regular supply of water.*

- The farmers who could benefit from HYV seeds required reliable irrigation facilities as well as the financial resources to purchase fertiliser and pesticide.

Reasons for the adoption of Green Revolution:

a. At the time of independence, about 75% of the country's population was dependent on agriculture.
b. Productivity in the agricultural sector was very low because of the use of old technology and the absence of required infrastructure for the vast majority of farmers.
c. India's agriculture vitally depends on the monsoon and if the monsoon fell short the farmers had to face lot of troubles.

☐ **The stagnation in agriculture during the colonial rule was permanently broken by the green revolution.**

Indian Economy experienced the success of Green Revolution in two phases:

a. In the first phase of the green revolution (mid 1960s upto mid1970s), the use of HYV seeds was restricted to more affluent states such as Punjab, Andhra Pradesh, Tamil Nadu. Further the use of HYV seeds primarily benefited the wheat growing regions only.
b. In the second phase of the green revolution (mid1970s to mid1980s), the HYV technology spread to a larger number of states and benefited more variety of crops.

Merits \ Positive effects of Green Revolution

a. The spread of green revolution technology enabled India to **achieve self-sufficiency in food grains** without any foreign dependence on food-grain imports.
b. A **good proportion of the rice and wheat** produced during the green revolution period (available as marketed surplus) **was sold by the farmers in the market** which resulted in increase in income of the farmers. (Marketable surplus refers to that portion of agricultural produce which is sold in the market by the farmers, after meeting their own consumption requirement.)
c. Due to large proportion of food grains sold by the farmers in the market, the **price of food grains declined** relative to other items of consumption. The **low-income group**s, who spend a large percentage of their income on food, **benefited from this decline in relative prices**.
d. The green revolution enabled the government to **procure sufficient amount of food grains** to build buffer stocks which could be used in times of food shortage.

Risks involved under green revolution (Demerits of green revolution / Problems with new technology)

While the nation had immensely benefited from the green revolution, the technology involved was not free from risks. One such risk was the possibility that:

a. it would increase the disparities between small and big farmers -- since only the big farmers could afford the required inputs, thereby reaping most of the benefits of the green revolution.
b. Moreover, the HYV crops were also more prone to attack by pests and the small farmers who adopted this technology could lose everything in a pest attack.

Steps taken by the government to overcome these risks /fears (or Role of Subsidies)

a. The government **provided loans at a low interest rate to small farmers and subsidised fertilisers** so that small farmers could also have access to the needed inputs. Since the small farmers could obtain the required inputs, the output on small farms equalled the output on large farms in the course of time. As a result, the green revolution benefited the small as well as rich farmers.
b. The risk of the small farmers being ruined when pests attack their crops was considerably reduced by the **services rendered by research institutes established by the government.**

NOTE: The green revolution would have favoured the rich farmers only if the state did not play an extensive role in ensuring that the small farmer also gains from the new technology.

The Debate Over Subsidies

Subsidy, in context of agriculture, means supply of certain inputs to the farmers at prices lower than the market price.

The economic justification of subsidies in agriculture is, at present, a hotly debated question. It is generally agreed that it was **necessary for the government to grant subsidies to provide an incentive for adoption of the new HYV technology** by farmers in general and small farmers in particular.

Secondly, any new technology will be looked upon as being risky by farmers. Subsidies were, therefore, needed **to encourage farmers to test the new technology.**

Arguments in favour of Subsidies:

a. Some believe that the government should continue with agricultural subsidies because **farming in India continues to be a risky business**.
b. Most farmers are very **poor** and they **will not be able to afford the required inputs** without subsidies.
c. **Eliminating subsidies will increase the inequality** between rich and poor farmers and violate the goal of equity.

Arguments against Subsidies

a. Some economists believe that once the technology is found profitable and is widely adopted, subsidies should be **phased out as their purpose had been served.**
b. Further, subsidies are meant to benefit the farmers but a substantial amount of fertiliser subsidy also **benefits the fertiliser industry.**
c. Among farmers, the subsidy largely benefits the farmers in the **more prosperous regions**.
d. Therefore, it is argued that there is no case for continuing with fertiliser subsidies; **it does not benefit the target group and it is a huge burden on the government's finances.**

Conclusion: Thus, experts argue that if subsidies are largely benefiting the fertiliser industry and big farmers, the correct policy is **not to abolish subsidies but to take steps to ensure that only the poor farmers** enjoy the benefits.

Critical Appraisal of Agricultural Development / Policies (1950-1990)

- The 'Land Reform' measures and 'Green Revolution' were the greatest achievements of the Indian Government, in increasing the agricultural production and productivity. **By the late 1960s,** Indian agricultural productivity had increased sufficiently to **enable the country to be self-sufficient in food grains.**
- On the negative side, some **65% of the country's population** continued to be **employed in agriculture even as late as 1990.**
- Economists have found that as a nation becomes more prosperous, the proportion of GDP contributed by agriculture as well as the proportion of population working in this sector declines considerably. But in India, between 1950 and 1990 the proportion of GDP contributed by agriculture declined significantly but not the population depending on it (67.5% in 1950 to 64.9% in 1990).
- Agricultural output could have been grown with much less people working in the sector. The engagement of such a large proportion of population in agriculture shows that **industrial and service sectors did not absorb the people working in the agricultural sector.** This is regarded as an important failure of our policies followed during 1950-1990.

The Service Sector

- As a country develops, it undergoes '**structural change'.** Usually, with development, the share of agriculture declines and the share of industry becomes dominant. At higher levels of development, the service sector contributes more to the GDP than the other two sectors.
- But in the case of India, the structural change is peculiar. In India, the share of agriculture in the GDP was more than 50 per cent—as we would expect for a poor country.
- But by 1990 the share of the service sector was 40.59 per cent, more than that of agriculture or industry, like what we find in developed nations.
- This phenomenon of growing share of the service sector was accelerated in the post 1991 period called 'Service-led growth' pattern; marked the onset of globalisation.

Price as signals

- It is important to understand that *prices are signals about the availability of goods*. If a good becomes scarce, its *price will rise* and those who use this good will have the incentive to make efficient decisions about its use based on the price.
- If the price of water goes up because of lower supply, people will have the incentive to use it with greater care; for example, they may stop watering the garden to conserve water.
- Some economists point out that *subsidies do not allow prices to indicate the supply of a good*. When electricity and water are provided at a subsidised rate or free, they will be used wastefully without any concern for their scarcity.
- Farmers will cultivate *water intensive crops if water is supplied free*, although the water resources in that region may be scarce and such crops will further *deplete the already scarce resources*.
  If water is priced to reflect scarcity, farmers will *cultivate crops suitable to the region*.
- Fertiliser and pesticide subsidies **result in overuse of resources** which can be harmful to the environment. Subsidies provide an incentive for wasteful use of resources.

INDUSTRY AND TRADE

Importance of industry

a. Industry provides employment which is more stable than the employment in agriculture.
b. It promotes modernisation and overall prosperity.
c. It also develops agriculture and thus helps in exploitation of resources.

Role of the government / public sector in industrial development

During the planning period the public sector was given a leading role in industrial development due to the following reasons:

a. At the time of independence, Indian **industrialists did not have the capital to undertake investment** in industrial ventures required for the development of our economy.
b. **The market was not big enough** to encourage industrialists to undertake major projects even if they had the capital to do so.
c. In addition, the decision to **develop the Indian economy on socialist lines** led to the policy of the state controlling the commanding heights of the economy, as the Second Five Year plan put it.

This meant that the state would have **complete control over those industries that were vital for the economy**. The policies of **the private sector would have to be complementary** to those of the public sector, with the public sector leading the way.

Industrial Policy

I. **Industrial Policy Resolution 1956 (IPR 1956):** In accordance with the goal of the state controlling the commanding heights of the economy, the Industrial Policy Resolution 1956 was adopted. This resolution formed the basis of the Second Five Year Plan. Main features of this policy were:

1. **Classification of industries into three categories:**

a. The first category comprised industries which would be **exclusively owned by state;**

b. the second category consisted of industries in which **the private sector could supplement the efforts of the state sector,** with the state taking the sole responsibility for starting new units;

c. the third category consisted of the **remaining industries which were to be in the private sector.**

2. **Industrial Licensing:** Private sector was kept under state control through a system of licenses. An industrial license is a written permission from the government, to an industrial unit to manufacture goods. According to Industrial Licensing –
   - **No new industry was allowed unless a license was obtained** from the government.
   - It was used for promoting industry in backward regions as it was easier to obtain a license if the industrial unit was established in an economically backward area. In addition, such units were given concessions such as tax benefits and electricity at a lower tariff. **The purpose of this policy was to promote regional equality.**
   - Even an existing **industry had to obtain a license for expanding output or for diversifying production** (producing a new variety of goods). This was meant to ensure that the quantity of goods produced was not more than what the economy required.
   - License to expand production was given only if the government was convinced that economy required a larger quantity of goods.

II. **Reservation for Small-Scale Industry**:

a. The production of **a number of products was reserved for the small-scale industry**; the criterion of reservation being the ability of these units to manufacture the goods.

b. They were also **given concessions such as lower excise duty and bank loans at lower interest rates.**

- **Small-Scale Industry (SSI)**: In 1955, the ***Village and Small-Scale Industries Committee***, also called the **Karve Committee**, noted the possibility of using small-scale industries for promoting rural development.

A 'small-scale industry' is defined with reference to the maximum investment allowed on the assets of a unit. **In 1950** a small-scale industrial unit was one which **invested a maximum of rupees five lakh**; **at present** the maximum investment allowed **is rupees one crore**.

Importance of SSI

- Small-scale industries generate more employment than the large-scale industries as **they are more labour intensive** i.e., they use more labour (and less capital).
- SSIs cannot compete with the big industrial firms; it is obvious that development of small-scale industry requires them to be **shielded or protected** from the large firms So, various steps were taken by the govt. for (protection as well as) the development of SSI.

Steps taken by the government to promote SSIs

a) The production of a number of products was reserved for the small-scale industry; the criterion of reservation being the ability of these units to manufacture the goods.
b) They were also given concessions such as lower excise duty and bank loans at lower interest rates.

Trade Policy (1950-1990) / Import Substitution Policy

Import Substitution policy aimed at replacing or substituting imports with domestic production.
It is also called 'inward looking trade strategy'.

- The **main objective** of this policy of the government was to **restrict imports** and **protect the domestic industries from foreign competition.**

- Protection from imports took two forms: tariffs and quotas. (instruments for import restrictions)
  i. **Tariffs** are monetary restrictions in the form of tax on imported goods; they make imported goods more expensive and discourage their use.
  ii. **Quotas** are non-monetary or quantitative restrictions on imports, specify the quantity of good which
  can be imported.

The **effect** of tariffs and quotas is that they restrict imports and therefore, protect the domestic firms from foreign competition.

Reason for Import Substitution:

1) The policy of protection (in the form of Import Substitution) is based on the notion **that industries of developing countries like India are not in a position to compete against the goods produced by more developed economies**. It is assumed that if the domestic industries are protected, they will learn to compete in the course of time.
2) Our planners also feared the possibility of **foreign exchange being spent on import of luxury goods** if no restrictions were placed on imports.

Effect of Policies on Industrial Development: (1950-1990) / Critical Appraisal of policies

Positive effects of industrial and trade policy: The achievements of India's industrial sector during the first seven plans are impressive indeed.

1. The proportion of **GDP contributed by the industrial sector increased** in the period from **11.8% in 1950 -51 to 24.6% in 1990-91**. The rise in the industry's share of GDP is an important indicator of development. The **6% annual growth rate** of the industrial sector during this period is commendable.
2. Indian industry was no longer restricted to cotton textiles and jute. In fact, **the industrial sector became well diversified** by 1990, largely due to the public sector.
3. The promotion of small-scale industry **gave opportunities to those people who did not have the capital** to start large firms to get into business. As a result, more employment opportunities were created. This promoted growth with equity.
4. Protection from foreign competition (through import substitution) enabled the **development of indigenous industries in the areas of electronics and automobile sectors** which otherwise could not have developed.

Negative effects of industrial and trade policy

1. **Over expansion of public sector**;
   - It is now widely held that **state enterprises continued to produce certain goods and services (often monopolising them) although this was no longer required**. An example is the provision of telecommunication service which continued to be reserved for the Public Sector even after it was realised that private sector firms could also provide it.
     Another instance could be the establishment of Modern Bread, a bread-manufacturing firm or managing hotels even when private sector could do the same.
   - Hence, **no distinction was made between (i) what the public sector alone can do and (ii) what the private sector can also do.**

Some scholars argue that the state should get out of areas which the private sector can manage and the government may concentrate its resources on important services which the private sector cannot provide.

2. **Inefficient functioning of the public sector:**
   - **Many public sector firms incurred huge losses but continued to function** because it is very difficult to close a government undertaking even if it is a drain on nation's limited resources due to employment reason.
   - Quite a few of the public sector firms were originally private firms which were on the verge of closure due to losses; they were then nationalised to protect the jobs of the workers.

A few economists believe that the public sector is not meant for earning profits but to promote the welfare of the nation. So public sector firms should be evaluated on the basis of the extent to which they contribute to the welfare of the people and not on the profits they earn.

3. **Misuse of Licence**:
   - The need to obtain a license to start an industry was misused by industrial houses; **a big industrialist would get a license** not for starting a new firm but **to prevent competitors from starting new firms.**
   - **More time was spent by industrialists in trying to obtain** a license rather than on thinking about how to improve their products.
   - The excessive regulation on private sector came to be called as **permit license raj** prevented certain firms from becoming more efficient.
4. **No incentive to improve the quality of Indian goods:**
   - Due to restrictions on imports, the **Indian consumers had to purchase whatever the Indian producers produced.**
   - The producers were aware that they had a **captive market**; so, they had no incentive to improve the quality of their goods. Competition from imports forces our producers to be more efficient.

Hence regarding protection some economists hold that we should protect our producers from foreign competition as long as the rich nations continue to do so.

CONCLUSION

During first seven plans:

In Agriculture sector-

- India became self-sufficient in food production due to green revolution.
- Land reforms resulted in abolition of the hated zamindari system.

In Industrial sector-

- Our industries became far more diversified compared to the situation at independence.
- However excessive government regulation prevented growth of entrepreneurship.
- Many economists were dissatisfied with the performance of many public sector enterprises.

<u>In Trade-</u>

- The protection of domestic producers against foreign competition in the name of self-reliance through 'inward oriented' policy did not give them incentive to improve the quality of goods that they produced and so we **failed to develop a strong export sector**

Thus, need for reform of economic policy was widely felt in the context of changing global economic scenario. As a result, the new economic policy was initiated in 1991to make our economy more competent, efficient and productive.

Indian Economy (1950-1990) MIND MAP

Development strategy adopted by India after independence

- **Mixed Economic System**
- **Five Year Plan strategy**

Goals of Five-Year Plans

- **Growth** – Increase in GDP.
- **Modernisation**- Adoption of new technology & change in social outlook.
- **Equity** – Benefits of economic growth are enjoyed by all.
- **Self-Reliance** – Avoiding imports of goods to reduce foreign dependence.

Agriculture Sector Problems

- Neither growth nor equity
- Land Settlement systems
- Low productivity
- Monsoon dependence- lack of irrigation facilities

Agriculture sector Policy

1. Land Reforms
   - Abolition of zamindari system- policy of 'land to tiller'
   - Land ceiling Act
2. Technological Reforms
   - Green Revolution

Policies adopted by the government during planning period (1950-90)

Industrial Sector Problems

- Lack of Capital goods industries
- Regional imbalance in industrial growth
- Lack of entrepreneurship and Capital
- Limited role of public sector

Industrial Policy (1950-90)

- Industrial Policy Resolution 1956 (Public sector given a leading role) Industrial
- Licensing
- Reservation for Small Scale Industries

External /Foreign Trade Sector Problems

- Need to reduce foreign dependence
- Encourage domestic production
- Increase in imports of food and essentials

Trade Policy (1950-90) –

Import Substitution- Substituting imports with domestic production

- **Need**: Protect domestic industry
- **Instruments:** Quota & Tariffs (restriction on imports)

Effects of Industrial and

Positive effects

- Increase in GDP from 11.8% in 1950-51 to 24.6 % in 1990-91. 6% annual growth rate of the industrial sector
- Industrial sector became well diversified.
- Promotion of small-scale industries encouraged production.
- Protection from foreign competition encouraged automobile and electronics

Negative effects

- Overexpansion of public sector
- Inefficient functioning and losses of the public sector which led to drain on the nation's limited resources.
- Misuse of License- Permit License Raj
- No incentive to improve the quality of Indian goods – captive market