Class-12th Indian Economic Development ch-5 Notes

Question 1

What is sectoral composition of an economy? Is it necessary that the service sector should contribute maximum to GDP of an economy? Comment.

ANSWER:

The sectoral composition of an economy is the contribution of different sectors to total GDP of an economy during a year. That is, the share of agricultural sector, industrial sector and service sector in GDP.

Yes, it is necessary that at the later stages of development, service sector should contribute the maximum to the total GDP. This phenomenon is called Structural Transformation. This implies that gradually the country's dependence on the agricultural sector will shift from the maximum to minimum and, at the same time, the share of industrial and service sector in the total GDP will increase. This structural transformation together with the economic growth is termed as economic development.

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Question 2

Why was public sector given a leading role in industrial development during the planning period?

ANSWER:

At the time of independence, Indian economic conditions were very poor and weak. There were neither sufficient foreign reserve nor did India have international investment credibility. In the facet of such poor economic condition it was only the public sectors that need to take the initiative. The following are the reason that explains the driving role of the public sector in the industrial development:

1. Need of Heavy Investment**:** There was a need of heavy investment for industrial development. It was very difficult for the private sector to invest such a big amount. Further, the risks involved in these projects were also very high and also these projects had long gestation period. Thus, the government played the leading role to provide the basic framework of heavy industries.

2. Low Level of Demand**:** At the time of independence, the majority of population was poor and had low level of income. Consequently, there was low level of demand and so there was no impetus for any private sector to undertake investment in order to fulfill these demands. Thus, India was trapped into a vicious circle of low demand. The only way to encourage demand was by public sector investments.

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Question 3:

Explain the statement that green revolution enabled the government to procure sufficient food grains to build its stocks thatcould be used during times of shortage.

ANSWER:

Green Revolution led to an increase in the production of food grains. With the use of modern technology, extensive use of fertilisers, pesticides and HYV seeds there was a significant increase in the agricultural productivity and product per farm land. In addition, the spread of marketing system, abolition of intermediaries and easy availability of credit has enabled farmers with greater portion of marketable surplus. All these factors enabled the government to procure sufficient food grains to build the buffer stock and to provide cushion against the shocks of famines and shortages.

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Question 4:

While subsidies encourage farmers to use new technology, they are a huge burden on government finances. Discuss the usefulness of subsidies in the light of this fact.

ANSWER:

Subsidy means availing some important inputs to farmers at a concessional rate that is much lower than its market rate. During 1960s, in order to adopt new technology HYV seeds and use of modern fertilisers and insecticides, farmers were provided inputs at a subsidised rate. Thus, the public sector role was needed to invest heavily, so as to raise the income of people that will in turn raise the demand and so on.

The following arguments are given in favour of subsidy:

1) Subsidy is very important for marginal land holders and poor farmers who cannot avail the essential farm inputs at the ongoing market rate.

2) Subsidy in 1960s was basically an incentive for the farmers to adopt modern techniques and vital inputs like fertilisers, HYV seeds, etc. The subsidy was mainly of convincing and lucrative nature so that the farmers do not hesitate to use these modern techniques.

3) Subsidy is generally provided to the poor farmers with the motive of reducing inequality of income between rich and poor farmers and to promote an egalitarian distribution of income.

4) It is argued that the adoption of new technology and techniques are not risk free and only daring farmers are only willing to adopt them.

The following arguments are given against subsidy.

1) It is generally argued that subsidy favours and benefits fertiliser industries than the farmers. Subsidies provide a protective shield against the market conditions and, consequently, these industries need not to bother about their market share and competition.

2) Subsidies are also enjoyed by the potential farmers who do not need them. This often leads to the misallocation and wastage of the scarce resources.

3) Subsidies, if provided at a much lower rate than the market rate may lead to the wastage of resources. For example, subsidised electricity leads to the wastage of energy.

4) There is a general consensus that in order to assess the benefit and feasibility of a particular technique, subsidy should be provided but once the performance has been

judged subsidies should be stopped.

Hence, based on the above pros and cons, we can conclude that although subsidies are very useful and necessary for poor farmers and to overcome uncertainties associated with farming, it put an excessive burden on the scarce government finances. Thus, a proper planning, suitable reforms and allocation of subsidies only to the needy farmers is required.

Question 5:

Why, despite the implementation of green revolution, 65 per cent of our population continued to be engaged in the agriculture sector till 1990?

ANSWER:

Although Indian agricultural production increased substantially that enabled India to attain the status of self-sufficiency in food grains but this increase is substantial only in comparison to food grain production in the past. Further, India failed to achieve structural transformation associated with the agricultural revolution and development. That is, in other words, industrial and service sector failed to generate significant employment opportunities in order to attract and absorb excess agricultural labour. The agricultural contribution to GDP has fallen from 51% in 1960-61 to 44% in 1970-71, on the other hand, the share of industry and service sector in India's GDP increased merely from 19% to 23% and from 30% to 33% during the same period. Meantime, the percentage of population dependent on agriculture decreased merely from 67.50% (in 1950) to 64.9% (in 1990). Hence, the industrial and service sector growth was not very significant and, hence, failed to employ and attract surplus labour from agricultural sector. This may be because of the flaws in the economic policies that became the bottleneck for the growth of secondary and tertiary sector.

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Question 6:

Though public sector is very essential for industries, many public sector undertakings incur huge losses and are a drain on the economy's resources. Discuss the usefulness of public sector undertakings in the light of this fact.

ANSWER:

Although, the mismanagement and wrong planning in PSUs may lead to misallocation and, consequently, to wastage of the scarce resources and finance but PSUs do have some positive and useful advantages.

1. Enhancing Nation's Welfare**:** The main motive of the PSU was to provide goods and services that add to the welfare of the country as a whole. For example, schools, hospitals, electricity, etc. These services not only enhance welfare of country’s population but also enhance the future prospects of economic growth and development.

2. Long Gestation Projects**:** It was not feasible and economically viable for the private sectors to invest in the big and wide projects like basic industries and electricity, railways, roads, etc. This is because these projects need a very huge initial investment and have long gestation period. Hence, PSU is the most appropriate to invest in these projects.

3. Basic Framework**:** An important ideology that was inherited in the initial five year plans was that the public sector should lay down the basic framework for industrialisation that would encourage the private sector at the latter stage of industrialisation.

4. Socialist Track**:** In the initial years after independence, Indian planners and thinkers were more inclined towards socialist pattern. It was justified on the rational ground that if the government controls the productive resources and production, then it won’t mislead the country’s economic growth. This was the basic rationale to set up PSUs. These PSUs produce goods not according to the price signals but according to the social needs and economic welfare growth of the country.

5. Reduce Inequality of Income and Generate Employment Opportunities**:** It was assumed that in order to reduce inequalities of income, eradicate poverty and to raise the standard of living, government sector should invest in the economy via PSUs.

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Question 7:

Explain how import substitution can protect domestic industry.

ANSWER:

In the initial seven five year plans, India opted for import substitution strategy, which implies discouraging the imports of those goods that could be produced domestically. Import Substitution Strategy not only reduces an economy’s dependence on the foreign goods but also provides impetus to the domestic firms. Government provides various financial encouragements, incentives, licenses to the domestic producers to produce domestically the import substituted goods. This would not only allow the domestic producers to sustain but also enables them to grow as they enjoy the protective environment. They need not to fear from any competition and also not to worry about their market share as license gives them the monopoly status in the domestic market. Being monopolist, they earn more profits and invest continuously in R&D and always look for new and innovative techniques. This gradually improves their competitiveness and when they are exposed to the international market they can survive and compete with their foreign counterparts.

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Question 8:

Why and how was private sector regulated under the IPR 1956?

ANSWER:

IPR 1956 was adopted in order to accomplish the aim of state controlling the commanding heights of economy. This policy was aligned with the Indian economy's inclination towards socialist pattern of system of Soviet Union. According to this resolution, industries were classified into following three categories:

Category 1: Those industries that are established and owned exclusively by the public sector.

Category 2: Those industries in which public sector will perform the primary role while the private sector will play the secondary role. That is, the private sector supplements the public sector in these industries.

Category 3: Those industries that are not included in Category 1 and Category 2 are left to the private sector.

These industries that were left to the private sector, the government owns an indirect control by the way of license. In order to initiate a new industry, private entrepreneurs should obtain license (or permit) from the government. By licensing system, tax holidays and subsidies government can promote industries in a backward region that will ,in turn, promote the welfare and development of that region. This was supposed to reduce regional disparities.

Further, in order to expand the scale of production, private sector needs to obtain license from government. This was supposed to keep a check on the production of goods that are socially undesirable and unwanted. Hence, the state fully controlled the private sector either directly or indirectly.
