

Chapter 6 · Development Experience 1947–90 and Reforms since 1991

CBSE Class 12 Economics (030) · Part B Indian Economic Development · Unit 6 = 12 marks · Ultimate Revision Sheet

60-SECOND RECALL

Colonial economy	Stagnant, semi-feudal, raw material supplier to Britain. Growth ~ 2% , per capita ~ 0.5%
First plan	1951 . Goals: growth, modernisation, self-reliance, equity
Green Revolution	HYV seeds + irrigation + fertiliser. Wheat and Punjab benefited most
1991 crisis	Forex reserves for 2 weeks of imports · fiscal deficit · inflation · PSU losses
NEP 1991	LPG — Liberalisation, Privatisation, Globalisation
Two policy sets	Stabilisation (short run, correct BoP) · Structural reform (long run, raise efficiency)

1. The Colonial Economy (before 1947)

- **Low growth** — national income grew under **2%** a year, per capita under **0.5%**.
- **Agriculture stagnated** — the **zamindari** system gave no incentive to invest; commercialisation forced cash crops over food.
- **De-industrialisation** — India's handicrafts were destroyed, and it became a **supplier of raw materials** and a **market for British finished goods**.
- **Foreign trade** — large export surplus, but it did **not** benefit India; it financed British administrative expenses (the **drain of wealth**).
- **Demography** — high birth and death rates, **literacy under 16%**, life expectancy around **32 years**.
- **Infrastructure** — railways, ports and telegraph were built to serve **colonial** interests, not Indian development.

2. Planning and Its Goals (1951–1990)

- THE FOUR GOALS** — a guaranteed question
1. **Growth** — increase in the country's capacity to produce goods and services; a rise in GDP.
 2. **Modernisation** — adoption of **new technology** and a change in **social outlook** (e.g. women's participation).
 3. **Self-reliance** — avoiding imports of what can be produced domestically; reducing dependence on foreign aid.
 4. **Equity** — benefits of growth must reach all, so that inequality falls and basic needs are met.

India adopted a **mixed economy** — combining the public and private sectors — guided by **five year plans** under the Planning Commission (est. 1950).

3. Agriculture — the Green Revolution

WHAT IT WAS A large increase in food-grain production resulting from **High Yielding Variety (HYV) seeds**, used together with **assured irrigation**, **chemical fertilisers**, **pesticides** and **credit**.
Phase 1 (mid-1960s to mid-1970s): confined to **wheat**, in **Punjab**, **Haryana** and **western UP**.
Phase 2 (mid-1970s to mid-1980s): spread to more crops and more states.

Benefits

- **Self-sufficiency in food grains** — no longer dependent on imports
- **Marketed surplus** rose sharply
- Buffer stock created for the **PDS**
- Farmers' incomes rose

Criticisms

- Benefited **large farmers** more → inequality
- Limited to **wheat and rice**, and to a few states
- **Environmental damage** — soil, water table, chemical overuse
- Risk of **pest attack** on HYV crops

Land reforms: abolition of intermediaries (zamindars), land ceiling, and consolidation of holdings. Abolition of intermediaries **largely succeeded**; the **land ceiling largely failed** because of loopholes and benami transfers.

4. Industry and Trade Policy (1950–1990)

- **Industrial Policy Resolution 1956 (IPR 1956)** classified industries into **three schedules**: A (17 industries exclusively for the state), B (12, state to progressively enter), C (all the rest, left to the private sector).
- **Industrial licensing** — every firm needed a licence to open, expand or change its product. Intended to promote backward regions.
- **Small-scale industry** was **reserved** for certain products and given concessions, to promote employment and equity.
- **Trade policy: import substitution** — protecting domestic industry through high **tariffs** and **quotas**, and replacing imports with domestic production.

Achievements

- Industrial **diversification** beyond textiles
- Public sector built **infrastructure** and heavy industry
- Growth of the **small-scale** sector
- Protection let domestic industry **grow**

Failures

- PSUs became **inefficient** and loss-making
- Licensing created a **permit-licence raj** and corruption
- Protection removed the **incentive to improve quality**
- No competition → **no innovation**

5. The 1991 Crisis and the New Economic Policy

WHY REFORMS BECAME UNAVOIDABLE

1. **Foreign exchange crisis** — reserves fell to about **two weeks** of imports.
2. **Mounting fiscal deficit** — government spending far exceeded revenue.
3. **Rising prices** — high inflation.

4. Poor PSU performance — heavy losses, drain on the exchequer.

5. India borrowed from the IMF and World Bank, which required structural adjustment.

THE TWO SETS OF MEASURES — know the distinction

Type	Purpose	Nature
Stabilisation measures	Correct the BoP deficit and control inflation	Short run
Structural reform measures	Improve efficiency and international competitiveness by removing rigidities	Long run

6. LPG — the three prongs

Reform	Meaning	Main measures
LIBERALISATION	Removing unnecessary controls, licences and restrictions — the end of the licence raj	Industrial licensing abolished except for a few industries · Reserved public-sector industries cut from 17 to a handful · Financial sector reforms — RBI as facilitator rather than regulator, private banks allowed, FII permitted · Tax reforms — rates reduced , procedures simplified, GST (2017) · Foreign exchange — rupee devalued 1991, then market-determined · Trade — tariffs cut, quotas removed, export duties removed
PRIVATISATION	Shifting ownership and management from the public to the private sector	Disinvestment — sale of PSU equity · Navratna status given to select PSUs to improve efficiency and autonomy
GLOBALISATION	Integration of the domestic economy with the world economy	Free flow of goods, services, capital and technology · Outsourcing — India benefits through IT/BPO because of cheap, skilled, English-speaking labour · WTO membership (1995)

7. Demonetisation and GST both named in the official Unit 6

DEMONETISATION — 8 NOVEMBER 2016 Concept: demonetisation means withdrawing the legal tender

status of currency notes of a particular denomination. On 8 November 2016 the Government of India demonetised the ₹500 and ₹1000 notes, which together made up about 86% of the currency in circulation by value.

Stated aims: curb **black money** · check **counterfeit currency** · cut off funding for **terrorism** · reduce **corruption** · move towards a **cashless / less-cash** economy.

Features as viewed by economists:

- It was a **tax administration measure** — unaccounted cash had to be deposited and declared, with a penalty.
- It channelled savings into the formal financial system, so more money entered the banking system.
- It was expected to reduce the **cash-to-GDP ratio** and expand **digital payments**.
- It caused a **temporary liquidity shock**, hitting the **informal sector**, agriculture and daily-wage workers hardest.

GST — GOODS AND SERVICES TAX, 1 JULY 2017 Concept: GST is a single, comprehensive, destination-based indirect tax levied on the supply of goods and services. It replaced a long list of central

and state indirect taxes — excise duty, service tax, VAT, octroi, entry tax and others — with one tax.

Structure: CGST (collected by the Centre) + SGST (collected by the State) on intra-state supply, and IGST on inter-state supply. Administered by the GST Council.

Merits: creates “one nation, one tax, one market” · removes the cascading effect (tax on tax) through input tax credit · widens the tax base and improves compliance · reduces transport delays at state borders · makes Indian goods more competitive.

Concerns: multiple rate slabs make it complex · compliance burden on small businesses · states lost some fiscal autonomy · disruption during the transition.

TRAP Demonetisation is a **MONETARY** measure (it changed the currency in circulation). GST is a **FISCAL / TAX** reform (it changed how indirect tax is levied). Questions sometimes ask you to classify them — do not call GST a monetary measure.

8. Appraisal of the Reforms

In favour

- GDP growth rose from about 5.6% to over 6–7%
- Foreign exchange reserves rose sharply
- FDI and FII inflows increased
- Inflation came under control
- India became a global IT and services hub

Against

- Growth was driven by services, not agriculture or industry

- Agriculture neglected — public investment fell, subsidies cut
- Jobless growth — employment did not rise with GDP
- Inequality widened; small firms could not compete
- Disinvestment proceeds used to cover the deficit, not to build assets

9. Question Triggers what the wording is really asking

If the question says...	Answer with
“why were reforms introduced in 1991?”	The five causes — lead with the forex crisis
“short-run measures to correct BoP”	Stabilisation measures
“long-run measures to raise efficiency”	Structural reform measures
“licences abolished, controls removed”	Liberalisation
“government sold its stake in a PSU”	Privatisation / disinvestment
“Indian firms competing worldwide, WTO”	Globalisation
“call centres set up in India by foreign firms”	Outsourcing
“HYV seeds, fertiliser, irrigation”	Green Revolution
“abolition of zamindari”	Land reform — largely successful

"land ceiling"	Land reform — largely failed (loopholes)
"protecting domestic industry from imports"	Import substitution via tariffs and quotas
"growth without employment"	Jobless growth — criticism of reforms

MOST-ASKED BOARD QUESTIONS

1. [4-6M] Explain the reasons for the economic reforms of 1991.
2. [4-6M] Explain liberalisation / privatisation / globalisation and their measures.
3. [4M] Explain the goals of five year plans / the four planning objectives.
4. [4M] Evaluate the Green Revolution — benefits and criticisms.
5. [3M] Distinguish between stabilisation and structural reform measures.
6. [1M] In which year did India become a WTO member? → **1995**

THE HABIT THAT SCORES — This chapter is examined as "evaluate" questions. Always give **both sides** — achievements and failures — then a one-line verdict. An answer with only the positive side caps at half marks, however well written.