

ECONOMY AND GOVERNMENT

We learn about the following in this chapter:

- *Relation between Government and economy*
- *Planning in India* • *Five year plans and achievements*
- *Green Revolution* • *Liberalisation and Globalisation*

The economic system is an organized system of all economic activities of human beings. The main objective of the economic system is human welfare. The government works towards improvement of human welfare. The important issues that arise are: Should the government interfere in man's economic activities? What is the role of the government in economic development?

Till the end of the 19th century, it was the opinion of many economists that the government should not interfere in man's economic activities. At that time, the governments were involved only in the fundamental duties of national security, dispensing of justice and maintenance of law and order. However, with the rise of 'Welfare States' in the 20th century, the scope of governments' involvement got extended. They came forward to provide many facilities like food, clothing, shelter, education, health, hygiene, transport, communication etc. to the citizens. As the Government began involving itself in the economic activities of the people. It began to gain more importance in the process of economic development.

Generally, in developing countries, many problems arise due to unemployment, poverty, agricultural backwardness, unequal distribution of income and wealth. Government mediation becomes inevitable in solving such problems. Developing countries also lack basic amenities like transport, communication, electricity, education, health etc. Their governments strive towards alleviating these problems.

An economic system is characterized by fluctuations in the national income, production, employment, investment, price etc. Such changes are called economic fluctuations. When an economy moves towards progress without extreme fluctuations, it is said to have economic stability. Similarly, the income and wealth generated

in the country should be distributed as equally as possible to everybody without any discrimination in the name of caste, class, literate or illiterate, urban or rural. This is called social justice. A government's responsibility is huge since it has to balance economic stability and social justice with economic development.

In the 20th century, governments implemented economic plans to achieve faster economic development. In 1929 Soviet Russia implemented the economic plan and emerged successful in achieving quick economic progress. After World War II, governments of many countries resorted to economic planning in order to resolve their economic problems.

1. PLANNING IN INDIA

Planning is essential in everyone's life. If one has to achieve success in one's personal life, the resources have to be utilized in a planned manner, isn't that so? If a student desires to acquire knowledge and secure good marks in examinations, student has to utilize their time in the day in a systematic manner. Everyday the number of hours devoted for the study, play, sleep and routine works has to be planned and implemented. Similarly, a country also plans to utilize its resources systematically in selected fields to achieve progress within a fixed time period.

'The conscious and wise process through which the government, with certain specific objectives, utilizes the country's resources in a profitable manner in order to secure maximum satisfaction of its people is called planning'. In order to attain the people's welfare Governments keeping the available resources in mind, on a priority basis, takes various decisions relating to what should be produced? How much should be produced? and How the product should be distributed? In this way, economic planning becomes a strategy to achieve overall development of the country.

Modern planning was first conceived in India by Bharat Ratna Sir M.Visvesvariah. In 1934, he published a book titled 'Planned Economy for India' in which he stressed the need for planning to achieve economic development in India. Hence, he



is regarded as 'Father of Economic Planning in India'.

After Independence, the Indian Government formed the National Planning Commission in 1950. The Prime Minister is its Chairman. The main objective of the commission is to precisely estimate the natural and human resources and capital in the country, and to prepare plans for effective utilization of these resources. Since the plan period in India is five years, it is called as five-year plan.

In 1952 the 'National Development Council' was established. The chief ministers of all the states are members of this board. It approves the draft copy of the five-year plans prepared by the National Planning Commission. It also attempts for balanced regional development of all the states in India.

2. FIVE YEAR PLANS

India's first five-year plan came into effect on 1st April 1951. Till now, eleven five-year plans have been implemented. At present, the 12th five-year plan is being implemented from 1 April 2012, and it will be completed on 31 March 2017. The successive plans has more investment outlays than the previous five year plans.

The government has implemented each five-year plans with certain specific objectives. These objectives set the goals of the respective plans. Poverty is one of the major problem in Indian economic system. Hence

Plans in India		
Plan	Plan Period	Public Cost (in crores)
1 Plan	1951-56	1,960
2 "	1956-61	4,672
3 "	1961-66	8,577
Yearly "	1966-69	6,251
4 "	1969-74	6,160
5 "	1974-78	42,300
6 "	1980-85	1,09,953
7 "	1985-90	2,22,169
Yearly "	1990-92	-----
8 "	1992-97	4,34,100
9 "	1997-02	9,41,041
10 "	2002-07	15,25,639
11 "	2007-12	36,44,718
12 "	2012-17	76,69,807

eradication of poverty and improveing the standard of living is one of the primary objective of Indias fire year plans. In order to achive

this goal, many other objectives has to be attained as they are complimentary and contribute to eradication of poverty and improving the standard of living. They are :

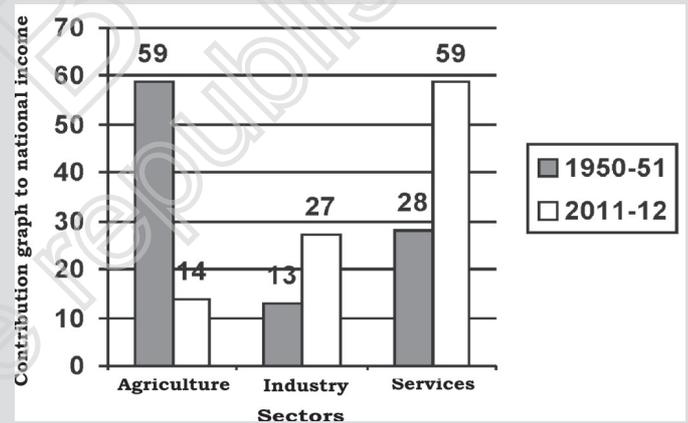
1. Increasing the production to the maximum extent possible.
2. Increasing the employment opportunities.
3. Reducing the economic disparities.
4. Ensuring economic stability.
5. Modernising the economy etc.

Achievements of the Five-year plans : Sixty years have passed since five-year plans were introduced in India. Eleventh five years plans have been implemented. What are the success and failure of these five year plans?

First let us look at the growth of national income. In the initial 20-year period of planning, our national income grew at an average rate of 3.5% per annum, whereas in the next 20-year period, it grew at an average rate of 5%. During in the period from 1991 - 2000, the annual growth was 5.6% whereas during 2001 - 2010, the growth was 7.3%. This means that, over the years, the rate of growth of the national income has increased gradually. In the period between 2001-2010, per capita income has grown at an average rate of 5.6 per annum.

In the development of the national income, there is the contribution of all the three sectors of the economy, i.e., agriculture, industry and services. In the initial period of the plan, the agricultural sector

Activity:



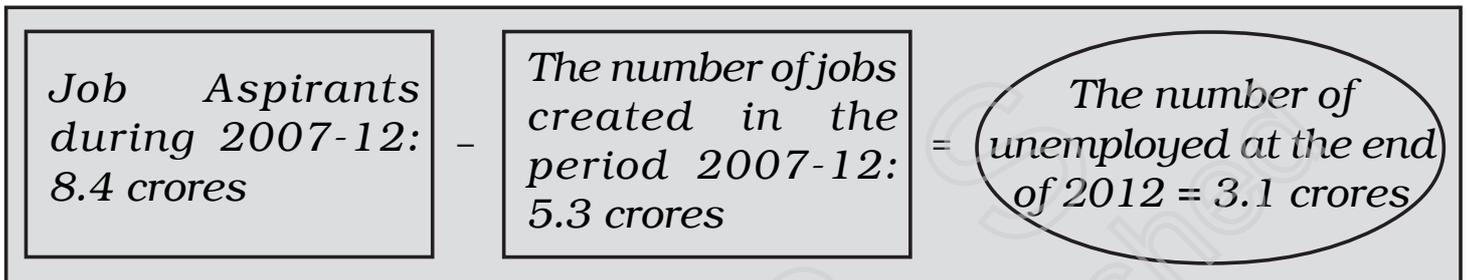
Study the bar graph given above and answer the following questions:

1. Which is the sector that has contributed most to the national income in 1950-51?
2. In the same year, which sector contributed the least?
3. In 2011-12, which sector has contributed the maximum income?
4. In 2011-12, what is the contribution of the agricultural sector?

contributed more than 50% to the national income. However, the contribution of this sector has reduced drastically now as 12%. At present, the major contribution to the national income has been from the service sector at 59%.

Self-sufficiency has been achieved in the production of food grains. The production has increased five times during the plan period, and reached 257.4 million tonnes in 2011-12.

Employment opportunities have increased with the expansion of industry and service sector. Attempts have been made to provide employment opportunities to the rural poor through poverty alleviation and employment-generation programmes.



Immense progress has been recorded in the fields of science and technology. Modern technology is being used in the agricultural, industrial and service sectors. Services of our engineers are being exported to foreign countries. The exports of manufacturing and engineering products have increased to a great extent.

But unfortunately during the post economic reform period, there is drastic increase in inequality of income as many disadvantaged sections are left out of the the growth process. Hence in order to include everyone in the process of growth. Inclusive growth has become the prionity of 11th and 12th five year plans.

Lot of improvement can be seen with respect to other parameters of development. Life expectancy and literacy rate of people have improved. Rate of infant mortality and post-natal mortality has reduced. Birth and death rates have reduced, and rate of population growth is also decreasing.

The five years plans failed to creat adequate jobs to all the job aspirants in the country. Poverty though relatively has reduced is still at large, disparity between rich and poor is increasing. Equality and social justice is yet to be attained. Lack of basic amenties has deepened.

3. GREEN REVOLUTION

The greatest achievement of the five-year plans has been the 'Green Revolution'. 'Revolution' means 'quick change or progress'.

The foodgrain production in India during 1967 was 74 million tonnes. Due to the initiatives of the government it increased to 108 million tonnes in 1970. The drastic increase in foodgrain production during the period is called as Green Revolution. What is the background to this 'Green Revolution'? What were the factors that motivated such a revolution?

The Green Revolution was the consequence of using 'high yielding seeds'. In the beginning of 1960, Dr. Norman Borlaug a German agricultural scientist conducted many experiments in Mexico, the result of which was the discovery of high-yielding wheat grains. Mexico and Taiwan made use of this grain and achieved immense success in the production of wheat.

Agricultural production dropped drastically in India in the year 1965-66 due to severe drought. There was a grave scarcity of foodgrains. To resolve this problem, in 1966, the Indian government initiated the usage of high-yielding variety seeds of wheat in the states of Punjab, Haryana, Delhi, Rajasthan and Eastern parts of Uttar Pradesh. Growing crops using high-yielding grains involves providing specific nutrients, regulated supply of water and protection from diseases. Hence, the use of chemical fertilizers and pesticides and irrigation facilities was also initiated with the usage of high yielding variety seeds. Irrigation facilities were expanded. As a result, production of wheat increased immensely. This improved technology used in agricultural production is called 'Pre-harvest Technology'. The role of Dr. M.S. Swaminathan, agricultural scientist in implementing the improved technology in Indian agriculture is significant. Hence he is called 'the Pioneer of Green Revolution'.



Dr. Swaminathan

In the initial stages of the green revolution, improved technology was used only in wheat crop. Inspired by its success, the government encouraged farmers to use high-yielding grains even in paddy, jowar, ragi, sugarcane and other crops. Attempts were made to use improved technology in growing all crops. In addition, steps were taken to spread the use throughout the country. As a consequence, great progress was achieved in agricultural production. By the 1980s, India achieved self-sufficiency in the production of food grains.

Preharvest technology was utilised only by rich and large cultivators. The poor marginal and small formers could not utilise the high yield verity seeds, chemical and fertilisers as they could not offered it. Hence government subsidied the fertilisers, equipments etc,. So the poor merginal and small formers can also avail the benefits of improved technology. In addition, it also came forward to provide loans to farmers through banks and co-operative organizations at low interest rates. Due to all these measures, farmers at all levels could make use of improved agricultural processes. As a result, agricultural production increased.

Activity :

Discuss support price for agricultural products with your teachers and farmers.

With the increase in agricultural production, prices of agricultural products decreased and the farmers could not recover their agriculture expenditure. Ensuring a fair price to the farmers' products became inevitable. How could a good price be secured for the farmers' produce? In order to ensure a good price for the farmers' products agri-markets were improved. Surplus produce had to be processed and used for manufacturing a variety of products. It became necessary to construct granaries and cold-storage warehouses to store the surplus produce. The latest technology had to be implemented for providing all these facilities. The improved technology that is used to procure, process and market agricultural produce is called 'Post-Harvest Technology'. Both pre-harvest and post-harvest technology has enabled the green revolution.

Do you know this?

Rainbow Revolution

In addition to farming, farmers also engage in related activities of cattle-breeding, poultry-farming, fishery and silk farming. The enormous increase in production resulting from agriculture and agro-based activities is called 'Rainbow Revolution'. This revolution consist many smaller revolutions. They are :

- 1. Green Revolution - Production of Food Grains*
- 2. Blue Revolution - Production of Fish*
- 3. Yellow Revolution - Production of Oil Seeds*
- 4. White Revolution - Production of Milk*
- 5. Silver Revolution - Production of Eggs*
- 6. Golden Revolution - Production of Fruits and Flowers*
- 7. Red Revolution - Production of Meat*

In order to solve the problems the agricultural sector is facing at present efforts are made to promote organic and natural farming in Indian agriculture. The nature friendly techniques of productions is the need of the hour. Government is making its efforts to further increase the agriculture

production through this techniques. This process is being referred to as 'the Second Green Revolution' or 'Perpetual Green Revolution'. Some enthusiastic farmers have been implementing eco-friendly and stable agricultural practices like organic farming, zero-investment farming etc. and are already reaping the benefits.

Do you know this?

Farmer-friendly micro-organisms: *There are innumerable micro-organisms and creatures like the earthworm in the soil which feed on organic waste like vegetable peels and leaves, and send them back to the soil. Due to this process, the soil becomes not only fertile but also softer. In this way, the soil regains its fertility. These micro-organisms control the pests that attack the crops. They devour the eggs laid by the pests in the soil and thus halt their multiplication. Thus, the micro-organisms, on the one hand, improve the fertility of the soil, and on the other, control the pests which harm the crops. In their eagerness to grow more, farmers are feeding many chemical fertilizers, insecticides and pesticides to the soil, thereby killing the farmer-friendly micro-organisms. The soil is losing its natural strength and softness. As a consequence, the amount of water which can seep into the soil, is getting reduced. In the absence of natural controls to their*

multiplication, pests and viruses are flourishing. Thus, on the one hand, the fertility of the soil is gradually being destroyed due to the extensive use of chemicals, while, on the other hand, the havoc caused by diseases and pests is increasing. As a result, in order to maintain their production levels, the farmers are being forced to resort to more and more chemicals every year. Consequently, their expenses are increasing, and the farmers are getting trapped in loans too. The path to freedom from this vicious circle is organic farming or natural farming.

LIBERALISATION AND GLOBALISATION

Post independence, Government of India aimed to attain economic development along with social justice. Hence it assumed a major role in development process. It implemented a regulated economy and imposed many restrictions on economic activities like the production of goods and services, their distribution etc. The government took the initiative to establish important, core industries like iron and steel, electricity, heavy machinery etc. It formulated rules and regulations for private industries. Licensing was made mandatory for the establishment of private-businesses. In addition, ceiling was imposed on the amount of capital invested in business or industry. The government decided the prices of essential goods and services. In order to protect indigenous manufacturers, higher tax was levied on imports. Due to all these rules and regulations, a solid foundation could be laid for Indian industry. However, the expected pace of development was not achieved.

In 1991, in order to increase the pace of development, the Indian government made structural changes in the economic policies and brought new economic policies into practice. These are referred as new economic reforms. The government decided to reduce its interference in developmental activities. It reduced unnecessary controls on production and distribution, and brought into practice a free economy where there was opportunity for competition. Towards this end, it introduced liberalization, privatization and globalization.

Liberalization : In order to move towards free economy, Government withdraw the unnecessary rules and regulation which hampered the growth of economic activities. The process of liberalisation of

Indian economy minimised the government intervention in the economic activities of the people, and made way for competition in the matter of production and marketing. The reason being, theoretically, when there is competition between manufacturers, resources get utilized appropriately and production increases. When there is rivalry in the area of marketing, the prices of goods and services come down, and pave the way for equal distribution among all the people.

Privatization : The practice of issuing licence for establishing private industries has been simplified. The limit on capital investment in private industries has been removed. Total freedom has been provided for establishing an industry, expanding the existing one, and merging with other industries. The industries are free to make use of foreign investment and foreign technology. In this manner, there is opportunity for competition in production and distribution. Owing to such steps, it has been possible for industries to develop competitively.

Globalisation : You would have noticed Chinese toys, Australian apples, Japanese T.V. sets and other innumerable foreign products being sold in shops around us. In the same manner, the readymade dresses being manufactured in our garment factories, the roses being grown by farmers around Bangalore, the pickles from Shiralkoppa, Bidri products from Bidar etc. are being sold in foreign markets. This kind of openness in our foreign trade has been enabled in the post economic reform period.

Due to globalization, foreign manufacturers can market their goods and services in our country, and our manufacturers can market their goods and services in foreign countries. In the same way, foreign investors can invest in our country, establish industries, manufacture goods and services, market them here or export them. Similarly, Indian investors can invest in foreign countries and establish industries. If so, then what is globalization?

Globalisation is integrating the Indian economy and the global economy. This means that all the rules and regulations of the government relating to import and export are removed, and opportunity is provided for free movement of goods and services, investment and technology between countries. Tax on imports and exports is reduced and total freedom is given for trade of goods and

services. The quota system that operated in foreign trade has been removed. Opportunity for foreign investment and import of technology has been provided. Opportunity has been provided for the establishment of multinational companies (MNCs).

Some economists claim that globalization has enabled the inflow of modern technology and foreign investment. Consequently, efficiency and quality of production has increased. It has been possible to make optimum use of available resources and increase production. Thus, it is possible for our economy to compete at an international level.

Liberalisation, Globalisation is also leading to many ill effects on Indian economy. Many Micro, small and medium industries perished and unemployment increased. Income and regional disparities widened Farm products are not getting the fair price, cost of productions is some farmers have resorting to suicides, unorganised workers are increasing, contract jobs have become order of the day. Government has taken efforts to mitigate this illeffects without much success. Medium and small-scale industries are perishing due to their inability to compete with big multi-national companies. Gap is widening between urban and rural communities, and between the rich and the poor. Farmers' suicides are increasing as agro-products do not fetch good price. Workers are facing insecurity.

Do you know this?

Foreign Direct Investment

Foreign Direct Investment refers to the foreign companies investing in our country and establishing industries or buying industries in the domestic economy. Globalisation has enabled foreign direct investment. From 1991 onwards, India has created an open atmosphere for FDI.

Foreign direct investment brings in capital investment and technological expertise. It also leads to creation of new job opportunities. However, our domestic companies may perish as they will not be able to compete with the huge multinational companies that may use destructive tactics.

EXERCISES

I. Fill in the blanks with suitable words:

1. In the 20th century, governments brought into practice _____ to enable economic development.

2. The organization which formulates the five-year plans in India is _____.
3. In the 11th five-year plan, _____ was given priority.
4. The Pioneer of the Green Revolution was _____.
5. The government encourages farmers to adopt _____ system of farming in order to make farming environment-friendly and stable.

II. Answer the following in one sentence each:

1. Explain the meaning of 'economic planning'.
2. Who is the 'Father of Indian Economic Planning'?
3. Which is the organization that approves five-year plans?
4. What is meant by 'Green Revolution'?
5. What is meant by 'Post-Harvest Technology'?
6. Explain 'Globalisation'.

III. Answer the following in 5-6 sentences.

1. How has the role of governments increased in welfare states?
2. What are the objectives of five-year plans?
3. List the achievements of five-year plans.
4. What are the factors that led to the Green Revolution?
5. What are the remedies for the ills that plague present-day agriculture?
6. What steps has the government taken towards liberalization?

IV. Activities :

1. List the foreign goods that are being used in your surroundings.
2. With the help of the internet, make a list of goals and objectives of 12th five years plan.

V. Project Work :

1. Visit the farm of a progressive farmer near your village/ town, learn about the agricultural practices and the pre-harvest and post-harvest technologies he follows, and prepare a report.

