UNIT 1 EVOLUTION OF INDIAN ECONOMY SINCE INDEPENDENCE

Structure

1.0 OBJECTIVES

After going through this unit, you will be able to:

- Give an overview of the state of the economy at the time of independence;
- Examine the history of planning in India;
- Identify and examine phases of the Indian economy's growth since independence; and
- Critically evaluate the trajectory of India's economic development since independence.

1.1 INTRODUCTION

India is one of the fastest-growing economies in the world and is projected to grow at a steady rate of 6.7% surpassing global growth of 2.7% in both Financial Year (FY) 2026 and Financial Year 2027 (World Bank, 2024). India's real Gross Domestic Product (GDP) is estimated to grow by 6.4 per cent in the Financial Year 2025. The World Bank's Global Economic Prospects (GEP) report attributes this strong growth to a thriving services sector and a strengthened manufacturing industry, supported by key government reforms. According to the report, improvements in infrastructure and simpler tax policies are boosting the economy.

However, India's economic landscape was not always this promising. At the time of independence, country inherited a colonial, backward economy with low national income, low per capita income, low level of industrialization, widespread poverty, unemployment, illiteracy and hunger. Through a series of reforms, policies, and structural transformations over the decades, the country has emerged as one of the fastest-growing economies in the world.

In this introductory unit of the course, we start by examining the state of the economy at the time of independence. We then discuss how the planning process started in India and the aims and targets of different five-year plans. We also examine the Indian economy's growth since independence.

1.2 STATE OF THE INDIAN ECONOMY AT THE TIME OF INDEPENDENCE

At the time of independence, India faced numerous challenges. The Indian economy was a stagnant and dependent economy at the time of its independence. Agriculture, the most dominant sector at that time employed around 85% of the population but the productivity of this sector was low. The sector suffered from stagnation, low yields, and subsistence-level farming.

At that time, industry was underdeveloped. Colonial government did not develop modern industries such as automobile, aviation, chemicals etc. They did construct a network of railway tracks across the length and breadth of this country but did not invest as much in the social sector such as in education, technical education or enhancement of managerial skills. They did not encourage the growth of ancillary industry. Construction of railways in India, unlike in Europe, did not lead to comprehensive expansion of the technical base, engineering institutes and local managerial skills. Indians were not involved at higher levels in managing the transport, commercial and technical side of the venture was more or less similar was the case with our financial institutions and trade.

A large segment of the population lived in poverty, with low per capita income. The poverty rate was estimated to be over 70%, and living standards were poor, with limited access to healthcare, education, and basic amenities. Due to the lack of industrial growth and the collapse of traditional industries, unemployment was high. Underemployment was also prevalent, with many people engaged in low-paying and unproductive jobs in agriculture. Some of the features of the Indian economy at the time of independence were:

1) **Low growth rate of Gross Domestic Income (GDP) and Per Capita Income (PCI)**

During 1900-1947, national income increased by a mere 0.4 per cent per annum. Per capita, income increased by just 0.1 per cent per annum. There was thus very little increase in per-capita income during the roughly 50-year period from 1900- 1947 (Table 1.1). Growth of national income and per capita income was thus very low.

Table 1.1: National Income and PCI (1900-1947) (at 1948 Prices)

Year	National Income (in Billions)	Per Capita Income (PCI) (in Rupees)
1900	43.4	228
1947	51.5	239

Source: Tirthankar Roy, The Economic History of India: 1857-1947, Oxford University Press; 3rd Edition.

2) Agriculture Sector

As discussed earlier, around 85% of the population was dependent on agriculture for their livelihood. But the contribution of agriculture to national income was about 50 per cent. On the eve of independence, Indian agriculture was characterised by problems like:

a) **Low Output Per Hectare:** The income of the farmers was less and land revenue was comparatively high. So, farmers were not in a position to invest in their farms. The government did not take the required measures to improve soil health, establish sources of irrigation and promote innovation in agricultural methods.

b) **Primitive Techniques of Production:** Agriculture was predominately dependent on monsoon for irrigation, though during the early 1940s, expansion of wells and canals had started. Four regions (Punjab, Madras, Western U.P and Sind) could start using their wasteland for agriculture due to the development of irrigation. At the time of independence, irrigation facilities were missing in most parts of the country. Canal-irrigated areas of Punjab and Sindh had gone to Pakistan.

c) **Lack of Commercialisation of Agriculture:** During the British period, the tradition of producing commercial crops like sugarcane, cotton, jute, opium, etc. had just begun. This trend in the commercialisation of agriculture somewhat supported its related industries like jute and cotton textiles. However, at the time of independence, due to partition, the most fertile area for Jute cultivation went to Eastern Pakistan.

3) Industrial Sector

In 1948-49, the contribution of the secondary sector was just 6.6 per cent of the GDP. Employment in the industries was a mere 1.8 per cent of the total population (around 274 million in 1941 of which 60.2 per cent were in the working age group of 15-59) of the country were working in the industry and that too consumer goods industry. This is the main reason for the high dependency of India on imports, particularly for capital goods. Due to these factors, when India got freedom, its substantial trade deficit was one of the major challenges faced by the new government in India.

Partition also had a significant impact on the industrial sector in India. The major blow was to the cotton and jute textile industries due to partition. Raw jute regions went to Pakistan, but mills remained in India. This created a raw material shortage for the mills located in India. The best cotton-growing regions (Sind and Western Punjab) became part of Pakistan which affected Indian textile mills. Therefore, on the eve of independence, the labour of these mills got unemployed which further increased poverty in newly independent India.

4) Currency and Financial Sector

The banking sector was underdeveloped and accessible to only a small section of society.

Banking was concentrated in urban areas, leaving rural India dependent on moneylenders for credit. Between 1913 and 1948, there were around 1,100 small banks in India but they lacked strong regulation. In 1949, the Banking Companies Act (later Banking Regulation Act, 1949) was passed to develop the sector.

5) State of Physical Infrastructure

Though the British did develop some infrastructure, their motive was to facilitate foreign trade to England. Communication facilities were developed for better administrative reasons. The crucial basic infrastructure required for the development of domestic industries was missing. For instance, electricity is one of the basic infrastructures required for the development of any industry. However the power generation capacity in India was almost negligible. In the same way, road and port connectivity was developed but limited to the routes used for the movement of manufactured goods and raw materials from the source of their origin to the ports and from ports to major commercial centres.

6) State of Social Infrastructure

On the eve of independence, **India's social infrastructure (schools, universities, hospitals, housing and others)** was also weak and underdeveloped. The state of the healthcare sector was poor with hospitals limited to big cities. The ancient health care system was also on the decline. Public health facilities were either unavailable to large chunks of the population or, when available, were highly inadequate. Consequently, water and air-borne diseases were rampant and took a huge toll on life. The overall morbidity rates and mortality rate were very high and in that, particularly, the infant mortality rate was quite alarming – about 218 per thousand live births in contrast to the present infant mortality rate of around 25 per thousand live births . Life expectancy at birth was also very low – 32 years in contrast to the present 69 years.

The state of Education was also poor. Though the British started formal schools, it was limited to a few cities. English education became one of the sources to get a job in British administration. For higher education, only sixteen universities were serving the entire population which was 274 million in 1941. This means that for 17+ million people, there was just one university. This shows that education which is an important medium for human development was not sufficiently accessible to all. As a result, at the time of independence, the literacy rate was as low as 16 per cent among males and 7 per cent among females.

Thus, the Indian economy was in a fragile and underdeveloped state on the eve of independence facing multiple challenges like low industrial output, an underdeveloped financial sector, weak social infrastructure, low per capita income, high unemployment, widespread poverty and severe regional disparities. The newly independent government had an urgent and tough task of revitalizing the economy with limited financial resources but unlimited developmental needs. At that time, it was necessary to adopt a **systematic and structured approach to planning.**

Check Your Progress 1

1. Briefly describe the state of agriculture sector in India at the time of independence.

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2. What was the state of physical and social infrastructure at the time of independence?

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3. When India got independent, what was the condition of industrial sector and financial sector?

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1.3 HISTORY OF PLANNING IN INDIA

In India, the significance of planning was recognized even before independence. Though the planned economic development in India began in

1951 with the inception of the First Five-Year Plan, theoretical efforts had begun much earlier, even before the independence. The setting up of the National Planning Committee, The Bombay Plan & Gandhian Plan in 1944, the Peoples Plan in 1945, Sarvodaya Plan in 1950 were steps in this direction. These are discussed briefly as follows:

- **National Planning Committee (1938)**: It was one of the first organized efforts established by the **Indian National Congress**. It outlined a structured economic strategy for independent India.
- **The Bombay Plan & Gandhian Plan (1944)**: The Bombay Plan proposed by leading industrialists emphasized industrial development, while the Gandhian Plan, prepared by Shriman Narayan Aggarwal in 1944, focused on rural self-sufficiency**.**
- **People's Plan (1945)**: It was drafted by the Post-War Reconstruction Committee of the Indian Trade Union. This plan advocated for socialist economic policies.
- **Sarvodaya Plan (1950)**: Developed by Jaiprakash Narayan, this plan drew inspiration from Gandhian principles. It emphasized decentralized economic growth and rural development.

Inspired by the **Soviet model of centralized planning**, India adopted **economic planning** to achieve its objectives to promote a rapid rise in the standard of living of the people by efficient exploitation of the resources of the country, increasing production and offering opportunities to all for employment in the service of the community. To implement it, the government established the Planning Commission in 1950, which was responsible for formulating Five-Year Plans (FYPs) and overseeing their implementation. The objectives of Planning Commission were:

- to assess the country's need of material capital and human resources and to formulate a plan for their more balanced and effective utilisation;
- to review all important programmes and projects before they are approved for implementation;
- to determine the pool of resources to be devoted to development and the allocation of this pool between various uses and users; and
- the monitoring and evaluation of their progress.

The first Five-year Plan was launched in 1951. Let us briefly discuss all the five-year plans:

1) **First Five-year Plan (1951 - 56)**
   - It was based on the Harrod-Domar Model. According to this model economic growth depends on Capital Formation (Investment Rate), Capital-Output Ratio and Savings Rate.

- The focus was on agriculture, price stability, power and transport.
- Its major initiative was to launch the Community Development Programme (1952) to promote rural development through agricultural expansion, irrigation, and social infrastructure.
- It was a successful plan primarily because of good harvests in the last two years of the plan. The target growth rate was 2.1%, however, the achieved growth rate was: 3.6%.

2) **Second Five-year Plan (1956 - 61) (**Mahalanobis model)

- It was developed by Prof. P.C. Mahalanobis
- The Plan focussed on rapid industrialization — heavy and basic industries. The Industrial Policy of 1956 was introduced. It advocated huge imports through foreign loans.
- The target growth rate was 4.5% actual growth rate was 4.3%

3) **Third Five-year Plan (1961 - 66)**

- Based on the experience of the first two plans, agriculture was given top priority to support exports and industry.
- However, due to **the India-China (1962) and India-Pakistan (1965) wars**, this plan failed to achieve targets. The Targeted Growth rate was 5.6% whereas the actual Growth rate was 2.84%.
- Severe droughts (1965,1966) led to food shortages, which again shifted focus to agriculture.

4) **Three Annual Plans (1966-1969)**

- The failure of the Third Plan led to adoption of three annual plans (1966-1969) to absorb the shock.
- The agriculture sector was given high priority due to the prevailing agricultural crisis and severe food shortages.
- These annual plans focussed on the distribution of high-yielding varieties of seeds, extensive use of fertilizers, exploitation of irrigation potential and soil conservation.

5) **Fourth Five-year Plan (1969 - 74)**

- The slogan of Garbi Hatao was given in 1971
- The Targeted Growth rate was 5.7% whereas the Actual Growth rate was 3.30%
- Focus on Agriculture to support other sectors.

6) **Fifth Five-year Plan (1974-79)**

- The fifth plan was prepared and launched by D.D. Dhar.

- It proposed to achieve two main objectives: 'removal of poverty' (Garibi Hatao) and 'attainment of self-reliance'
- The targeted growth rate was 4.4% while actual growth rate was 3.8%
- This plan did not complete its period because of change in Government at the Centre and was terminated in 1978.

7) **Rolling Plan (1978 - 80)**

The focus of new government was on employment generation. But it did not complete its period because of change in Government in 1980.

8) **Sixth Five-year Plan (1980-85)**

- Focus of this plan was on Employment, food grains production and reduction of poverty, Increase in national income, population control through family planning etc.
- The targeted growth rate was 5.2% while actual growth rate was 5.66%.

9) **Seventh Five-year Plan (1985-90)**

- The focus was on Energy, employment, food grain production and raising productivity.
- Target Growth rate was 5.0% Actual Growth rate was 6.01%.

10) **Eighth Five-year Plan (1992 - 97)**

- The eighth plan was postponed by two years because of political uncertainty at the Centre.
- The focus of this plan was on "Human Resource Development"
- Worsening the Balance of Payment position and inflation during 1990-91 were the key issues during the launch of the plan.
- The target growth rate was 5.6% while actual growth rate was 6.8%.

11) **Ninth Five-year Plan (1997- 2002)**

- The aim was "Growth with Social Justice"
- Its focus areas were Economic Growth, Infrastructure, Agriculture, rural development, and environmental sustainability.
- The Targeted Growth rate was 6.5% Actual Growth rate was 5.35%

12) **Tenth Five-year Plan (2002 - 2007)**

- The Plan aimed to "Double the Per Capita Income" in the next 10 years and to achieve an 8.1% GDP growth rate.

- Focus areas were: poverty, unemployment, Reduction in gender gaps, health, and environment.
- The targeted growth rate was 8.1% Growth achieved rate was 7.7%

13) **Eleventh Five-year Plan (2007 - 2012)**

- It focused on "Faster and more Inclusive Growth".
- The targeted growth rate was 8.1% Growth achieved rate was 7.9%

14) **Twelfth Five-year Plan (2012 - 2017)**

- It focused on "Faster and more Inclusive and Sustainable Growth".
- Its focus was to reduce the gender gap, environment, health and poverty.
- The Targeted Growth rate was 8%.

Establishment of NITI (National Institution for Transforming India) Aayog 2015

The Twelfth Five-Year Plan was the last formal plan formulated by the Planning Commission before it was replaced by the NITI Aayog in 2015. NITI Aayog was formed via a resolution of the Union Cabinet on 1 January 2015. Its mandate is to provide governments at the central and state levels with relevant strategic and technical advice related to various issues. This includes matters of national and international importance on the economic front, dissemination of best practices from within the country as well as from other nations, and the infusion of new policy ideas and specific inputs based on various issues.

1.4 PHASES OF GROWTH IN INDIA SINCE INDEPENDENCE

Post-independence, India's economic growth can be examined in terms of the following phases each characterized by varying policy frameworks, growth rates, and structural shifts that reshaped the Indian economy over time.

1.4.1 Phase I: 1950-1980

Between 1950-1970, India's economy transitioned from initial post-independence recovery to a state-led industrialization model. This phase was marked by trade restrictions, heavy regulation, and public sector dominance.

Although there were significant steps towards the improvement of agricultural productivity (Green Revolution) and industry (industrial Policy 1956), however, bureaucratic inefficiencies, import restrictions, and external economic shocks (like droughts) had a negative impact on overall progress.

1) **Economic Performance**

- India's GDP increased at an annual average rate of 3.5 per cent.[1] During this period, the population has also increased at an annual average rate of over 2.00 per cent. Therefore, the real per capita income has increased only at an annual average rate of 1 per cent. During the first decade, real national income went up by 3.8 per cent (1.8%), this rate came down to 3.5 per cent (1.2%) in the 1960s, and 3.1 per cent (1.1%) in the 1970s.

- The savings rate, as a per cent of Net National Product (NNP), went up from an average of 6.28 during 1950-52 to an average of 11.14 during 1964-66. A role in this improvement was played by tax policy. Tax revenue as a per cent of NNP also went up from less than 7 per cent at the beginning of the period to more than 14 per cent at the end of it.

2) **Economic Planning and industrial licensing system**

- From the Second Five-Year Plan (1956-1961) onward, the government began setting specific industrial targets for production and capacity in the organized sector-particularly in public sector.

- A comprehensive industrial licensing system was introduced. It required businesses to obtain approval before starting or expanding industries.

- Expanding or starting an industry requires both an industrial license and an import license for capital goods (CG).

- Although industrial licensing was relaxed in the late 1960s, there were strict import controls.

- The licensing system slowed down the process of adopting market changes (e.g. adding new equipment or diversifying products).

3) **Foreign Trade**

- The State Trading Corporation (STC) was established in 1956 to handle a significant portion of imports and exports. It directly conducted trade and sometimes for commission, allowed private traders to operate under its supervision. By 1965, STC controlled about 5% of India's total trade. Its role was moderate but important.

- India relied on foreign aid and loans. However foreign private investment was limited due to strict government controls.

- India has engaged in bilateral trade agreements not only with the Soviet bloc but also with other developing countries. Exports to the

[1] Prof. Raj Krishna believed that the economy was caught in the "low-level equilibrium trap of slow growth" of a 3.5 per cent annual growth rate. This came to be known as the 'Hindu Rate of Growth'.

Soviet bloc were about 5 per cent of total Indian exports during the Second Plan but grew to nearly 16 per cent during the Third Plan.

4) Structural Challenges during the period

- The economy remained largely agrarian. There was slow progress in industrial diversification.
- Largely rural population: The percentage of the urban population has marginally increased from 16 per cent in 1951 to 18 per cent in 1961 and presumably to 2.0 per cent by 1971.
- Public sector investment was dominant while there were various restrictions on the private sector.

1.4.2 Phase II: 1980-90

1) Economic Performance

- The rate of growth improved in the 1980s.
- From Financial Year 1980 to Financial Year 1989, the economy grew at an annual rate of 5.5 per cent, or 3.3 per cent on a per capita basis. A high rate of investment (majorly from the public sector) was a major factor in improved economic growth.
- The agriculture sector grew at a rate of 3.6 per cent.

2) Industrial performance and Restrictions

- The Industrial Policy of 1985 reduced licensing restrictions on consumer goods industries.
- This phase also saw the raising of the exemption limit from licensing, relaxations to MRTP (Monopolies and Restrictive Trade Practices) and FERA (Foreign Exchange Regulation Act)
- The industry grew at an annual rate of 6.6 per cent.
- Investment went from about 19 per cent of GDP in the early 1970s to nearly 25 per cent in the early 1980s.

3) Foreign Trade and Investment

- Import restrictions were slightly eased, and some industries could access foreign technology and capital.
- However, there were still high tariffs and import quotas.

4) Economic Challenges

- Private savings had financed most of India's investment, but by the mid-1980s further growth in private savings was difficult because they were already at quite a high level.

As a result, during the late 1980s, India relied increasingly on borrowing from foreign sources to bridge the gap between savings and investments. This trend led to a balance of payments crisis in 1990; in order to receive new loans, the government had no choice but to agree to further measures of economic liberalization.

- This commitment to economic reform was reaffirmed by the government that came to power in June 1991.

Check Your Progress 2

1. Give a brief account of objectives and achievements of first three five-year plans in India.

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2. Discuss the position of economic performance of India during 1950-1990.

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3. What were the challenges faced by India during first two phases of growth?

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1.4.3 Phase III 1991-2008

In 1991, India had to adopt the IMF's Washington Consensus, which required a review of the core strategy and related macroeconomic policies based on the following 4Ds:

One, D for Deregulation

Two, D for Denationalization

Three, D for Devaluation

Four, D for Deflation

After the turbulent times that the economy faced, the reforms helped pull the country out of crisis and move towards the path of progress.

The new economic policy framework came to be known as the LPG (liberalisation, privatisation and Globalisation) policy framework where necessary changes were made in different arms of the economic policy. These changes were in the following sectors:

- **Financial sector reforms**

  This era was marked by reduced government control over financial institutions. Private and foreign banks were allowed to operate in India. RBI adopted a market-driven approach instead of excessive regulation.

- **Banking reforms**

  Easy access to money was employed as a growth tool. Low-cost credit, it was believed, would generate more demand for basic credit. Rules and procedures for borrowers were rationalized and simplified. Financial institutions were encouraged to expand their areas of operation. Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) were reduced which in turn freed up more money for banks to lend. Banks were given more independence in making decisions about their operations and management and more freedom to set their interest rates on deposits and loans.

- **Fiscal sector reforms**

  India's fiscal policy (taxation and government spending) was liberalized to boost consumption and investment. Tax structure, both direct and indirect, was simplified and made market-friendly. Major cuts were made in income tax rates, corporation tax and all indirect taxes. For example, the highest marginal income tax slab of 97.2% in the early nineteen seventies was brought down to nearly 30%. There were major cuts in corporate tax rates, set to go down to 25%, in customs duties, excise duties and VAT. The investors were assured that their dream projects would not suffer because of non-availability of credit.

- **Foreign trade reforms**

  Reduction in import tariffs and duties made trade more competitive. This period also marked a shift from import-substitution to export-led growth. Foreign Direct Investment (FDI) was also encouraged in various sectors. The earlier managed float system of exchange rate determination was dropped. Instead, the foreign exchange rate determination was left to the market forces: the rupee could depreciate or appreciate its own strength or weakness in the market. It was no longer subject only to the government's decision.

  The rupee was made fully convertible on the current account and partially convertible on the capital account.

- **Foreign exchange reforms**

  In this period, rupee devaluation led to better forex reserves. The Foreign Exchange Regulation Act (FERA) was replaced by the Foreign

Exchange Management Act (FEMA) in 1999 to ease foreign exchange controls. Indian companies were also allowed to raise capital abroad and participate in global markets.

- **Industrial reforms**

  The New Industrial Policy (NIP) of 1991 was one of the major reforms that led to the abolition of the License Raj and reduced government control. It led to easier business setup. This phase also experienced increased private-sector participation and reduced public-sector dominance. Foreign technology and capital were also allowed in a few industries.

- **Public sector reforms**

  The New Industrial Policy (NIP) of 1991 suggested the following four measures:

  - Reduction in the number of industries reserved for the public sector from 17 to 8 (subsequently reduced still further to 3) and the introduction of selective competition in the reserved area;
  - The disinvestment of shares of a select set of public sector enterprises to raise resources and to encourage wider participation of the general public and workers in the ownership of public sector enterprises;
  - The policy towards sick public sector enterprises to be the same as that for the private sector; and
  - An improvement of performance through an MOU (memorandum of understanding) system by which managements are to be granted greater autonomy but held accountable for specified results. In addition, there was a drastic reduction in the budgetary support to sick or potentially sick PSEs.

- **Capital market reforms**

  During this phase, SEBI (Securities and Exchange Board of India) was strengthened to regulate stock markets. Foreign Institutional Investors (FIIs) were encouraged to invest in Indian markets. Stock exchanges were modernized which made India's financial markets more transparent.

In the first three years of the 1990s, the GDP grew at 4 per cent annually. In the following four years, the growth rate jumped to 7.1 per cent but only fell back to 5.2 per cent in the succeeding five years. The underlying trend growth rate during the decade was just over 6 per cent. However, subsequently, the period 2003-08 saw the real GDP grow at 8.2 per cent annually Meanwhile population growth rate stabilised at around 1.1% per annum. The sustained growth at 8 per cent plus resulted from many serious policy initiatives on the part of the government.

1.4.4 Phase IV: 2008–2014

The growth process slowed during 2008-09 in the wake of the global economic crisis, although some indicators of slowdown had made their presence felt even earlier.

Global economic crisis resulted in:

- fall in inflows of foreign direct investment,
- rise in outflows on account of portfolio disinvestment,
- decline in export orders from developed market economies, as a result of which domestic investment, employment and consumption slowed down.
- The slowdown affected all sectors of the economy; the growth rate in the service sector during 2008-09 came down to 9.3 per cent, against 10.8 in 2007-08, in agriculture to 1.6 per cent from 4.9 per cent, and in industry to 3.9 per cent from 7.4 per cent. The decline in service activity could be attributed to lower demand for off-shoring and IT and IT-enabled services from the US and Europe, where several economies are grappling with debt problems.
- There was also an impact on financial services as banking activity slowed down on account of higher interest rates and investors were scared of parking their funds in stock markets. Real GDP growth rate slowed down to 6.5% per cent during 2011-12. It continued to be low in subsequent two years 2012-13 and 2013-14. Apart from the slow recovery in India's export destinations, there were several domestic policy concerns including — a ban on iron ore mining, cancellation of coal blocks, delays in environmental clearances, the emergence of the Non-Performing Asset (NPA) crisis and the consequent double balance-sheet problem that resulted in this slowdown.
- Another major concern at this stage, though not entirely unexpected, was the sharp dip in the growth rate of private consumption. Similarly, the slowdown in the growth rate of gross fixed capital formation (GFCF) was an area of policy concern from the point of an early return to the high GDP growth path.

1.4.5 Phase V: 2014–2019 and Covid Period

During the period from 2014-15 to 2018-19, India's economy registered an average GDP growth rate of 7.5 per cent. Several reforms contributed towards it:

- 4R Approach – Recognition, Resolution, Recapitalization, and Reforms to strengthen banks.
- Labour Law Reforms
- Corporate Reforms

- E-Clearances – Faster approvals through digital platforms
- FDI Relaxation
- Support for NBFCs/HFCs/MSMEs
- GST Implementation
- Insolvency and Bankruptcy Code (IBC).

India's GDP growth moderated to 5% in 2019-20 as compared to 6.8% in 2018-19, amidst a weak environment for global manufacturing, trade and demand. The economic state of the Indian economy from 2019 onwards may be identified as the 'pause phase.' Various factors like reduced aggregate investment, inflation, Rising External Imbalances, weak Consumption, slowing Services Sector, Fiscal-Monetary imbalance and the impact of the COVID-19 pandemic were responsible for the 'pause phase'.

1.4.6 Phase VI: Post Covid-2024

After the contraction of -7.3% in FY 2020-21 due to the pandemic, the Indian economy saw a strong recovery, with GDP growth rebounding to around 8.7% in FY 2021-22. This was driven by pent-up demand, a revival in economic activities, and government stimulus measures. In FY 2022-23, GDP growth moderated to around 7.2%, as the initial post-pandemic boost subsided, but the economy continued to expand at a robust pace. The services sector, particularly IT, e-commerce, and financial services played a significant role in the recovery. Manufacturing also saw growth, driven by the government's "Make in India" and "Atmanirbhar Bharat" (self-reliant India) initiatives. The agriculture sector remained a stabilizing force throughout, providing consistent growth and rural employment.

As a result, India's real GDP grew by 8.2 per cent in FY24, posting growth of over 7 per cent for a third consecutive year, driven by stable consumption demand and steadily improving investment demand. On the supply side, gross value added (GVA) at 2011-12 prices grew by 7.2 per cent in FY24, with growth remaining broad-based. Net taxes at constant (2011-12) prices grew by 19.1 per cent in FY24, aided by reasonably strong tax growth, both at the centre and state levels and rationalisation of subsidy expenditure.

At present the economy is facing the following challenges which are being addressed in policies:

- **Declining FDI:** Total (or gross) FDI inflows into India fell over 16 per cent to $70.9 billion (Rs 6 lakh crore) in FY24, from $84.8 billion (Rs 7.2 lakh crore) in FY22. It was $71.4 billion (Rs 6.02 lakh crore) in FY23. This is mainly attributed to geopolitical conflicts, high borrowing costs, and global economic fracturing.
- There is **widespread inequality** in the country. According to the World Inequality Report 2022, India is among the most unequal countries in the

world, with the top 10% and top 1% of the population holding 57% and 22% of the total national income respectively. The share of the bottom 50% has gone down to 13%.

- **Unemployment** is one of the major concerns of our country. The unemployment rate in India rose from 6.0% in 2021 to 9.2% in June 2024.
- **A weaker rupee** implies higher import costs, which could lead to a widening current account deficit (CAD). India's overall trade deficit increased to 3.4 per cent of GDP in Q2 FY 2025, up from 2.9 per cent in the same period last year, while the merchandise trade deficit rose to 8.2 per cent of GDP from 7.5 per cent.

Check Your Progress 3

1. Briefly describe LPG policy of 1991 and what changes were made in different arms of the economic policy.

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2. What are the various reforms that contributed to achieving growth rate of 7.5% from 2014-2019?

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3. What are the various challenges that India is facing at present.

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1.5 LET US SUM UP

In this introductory unit of the course, we traced the evolution of the Indian economy since independence. At the time of independence, India faced numerous challenges. Agriculture was suffering from low productivity, industry was underdeveloped, and a large segment of the population lived in poverty, with low per capita income. Due to the lack of industrial growth and the collapse of traditional industries, unemployment was high. After independence, India adopted a systematic and structured approach to planning. To implement it, the government established the Planning Commission in 1950, which was responsible for formulating Five-Year Plans (FYPs) and overseeing their implementation. The first Five-year Plan was launched in 1951. There have been 12 five-year plans till NITI Aayog replaced Planning Commission in 2015. Post-independence, India's economic growth can be examined in terms of different phases each characterized by varying policy frameworks, growth rates, and structural shifts that reshaped the Indian economy over time: Phase I: 1950-1980, Phase II: 1980-90, Phase III 1991-2008, Phase IV: 2008–2014, Phase V: 2014–2019 and Covid period, Phase VI: Post Covid-2024.

1.6 KEY WORDS

Gross Domestic Product (GDP) : Total monetary value of all the final goods and services produced within the geographic boundaries of a country, during a given period (usually a year).

Per Capita Income (PCI) : It is a measure of average income earned per person calculated by dividing the total income by the total population.

Harrod-Domar Model : The basic idea of the Harrod-Domar model is that economic growth depends on the amount of capital that is available for investment and that the rate of capital accumulation is proportional to the rate of savings.

Inclusive Growth : Inclusive Growth is about making sure that everyone benefits from economic growth and that poverty is reduced.

Sustainable Growth : Sustainable development is an approach to growth that aims to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Deregulation : The process of removing or reducing state regulations

Denationalization : The action of changing an industry from being owned or controlled by the government of a country to being privately owned.

Devaluation : Downward adjustment to a country's value of money relative to a foreign currency or standard.

Deflation : A general decline in prices for goods and services

Liberalisation : Reducing or removing government regulations and restrictions on economic activities, trade, and business operations.

Privatisation : The transfer of ownership, property or business from the government to the private sector

Globalisation : Process of increasing interdependence and

		integration among the economies
Cash Reserve Ratio (CRR)	:	the percentage of a bank's total deposits that it needs to maintain as cash
Statutory Liquidity Ratio (SLR)	:	The minimum percentage of deposits that a commercial bank has to maintain in the form of liquid cash, gold or other securities.
Fiscal policy	:	Fiscal Policy refers to government policy in respect of public expenditure, taxation and public debt.
Foreign Direct Investment (FDI)	:	It is an investment made by a company or an individual in one country into business interests located in another country.
Non-Performing Asset (NPA)	:	A non-performing asset (NPA) is a loan or advance for which the principal or interest payment remained overdue for 90 days.
Gross Fixed Capital Formation (GFCF)	:	Gross fixed capital formation (GFCF), also called "investment", is defined as the acquisition of produced assets (including purchases of second-hand assets).
Current Account Deficit (CAD)	:	Current Account Deficit (or Surplus) measures the gap between the money received into and sent out of the country.
Gross Value Added	:	Gross value added (GVA) is the measure of the total value of goods and services produced in an economy.

1.7 SOME USEFUL BOOKS/REFERENCES

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1.8 ANSWERS/HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1. Indian agriculture was characterised by problems like: low output per hectare, primitive techniques of production, lack of commercialisation.

2. Though the British did develop some infrastructure, the crucial basic infrastructure required for the development of domestic industries was missing. **India's social infrastructure (schools, universities, hospitals, housing and others)** was also weak and underdeveloped. Also refer to Section 1.2.

3. In 1948-49, the contribution of the secondary sector was just 6.6 percent of the GDP. Employment in the industries was a mere 1.8 percent of the total population. The banking sector was underdeveloped and accessible to only a small section of society. Also refer to Section 1.2.

Check Your Progress 2

1. Refer to Section 1.3

2. Refer to Sub-Sections 1.4.1 and 1.4.2

3. Refer to Sub-Sections 1.4.1 and 1.4.2

Check Your Progress 3

1. Financial sector reforms, banking reforms, fiscal sector reforms, foreign trade reforms, foreign exchange reforms, industrial reforms, public sector reforms, capital market reforms
2. 4R approach to strengthen banks, Labour Law Reforms, Corporate Reforms, E-Clearances – Faster approvals through digital platforms, FDI Relaxation, support for NBFCs/HFCs/MSMEs, GST Implementation, Insolvency and Bankruptcy Code (IBC).
3. Declining FDI, widespread inequality, unemployment, a weaker rupee

1.9 TERMINAL QUESTIONS

1. Discuss the key characteristics of the Indian economy at the time of independence.
2. Analyze the structural weaknesses of the Indian economy in 1947 and their long-term implications.
3. Explain the evolution of economic planning in India.
4. Discuss the challenges faced by the Indian economy during the first three decades after independence.
5. How did globalization shape the Indian economy between 1991 and 2008?
6. How has the Indian economy adapted to the challenges of the post-COVID world?