

ECONOMICS

CHAPTER - 14

ECONOMIC STRUCTURE



We learn about the following in this chapter,

- Features of ancient and traditional economic systems and the nature of their transformation
- Sources of income and employment
- Features of static and dynamic economy
- India's progress towards self-reliant economy

Structural Transformation

We have learnt about economic activities last year. Economic activities are classified into agricultural, industrial and service sector activities. The nature of production and employment in these three sectors of the economic system, the level of income, use of technology and the changes that take place in lifestyles are called the economic structure.

Generally, the economic structure of any economy is subjected to continual change. The factors of production namely land, labour, capital and organization improve their efficiency and productivity. The nature of work and the amount of production keep changing with the use of new and appropriate technology in the factors of production.

Indian economy is by tradition an agrarian economy. Majority of the population are engaged in cultivation. It was subsistence farming. The farmers grew just what was necessary and required for them. The wants of the people were few and their life was simple. Barter system was in practice. When farming became commercialized, the ancient economic systems started getting transformed. Instead of growing only what was required for their needs, the farmers began to grow those crops that could be sold in the market for money. Along with the traditional crops of ragi, paddy, jowar and wheat, they began to grow the commercial crops like coconut, cotton, sugarcane, jute, groundnuts and spices which were more profitable. Agro industries also flourished as cotton, sugar and other commercial crops were

grown extensively.

The Industrial Revolution that started in Britain during the 17th and 18th Centuries gradually spread to other countries. This revolution led to the rise of a new class in society called as the capitalist class. The feudal lords who owned lands, came forward to invest their money in industries, and thus came to be known as investors. Making use of new discoveries, and excited by the huge profits, they established different kinds of industries. Over a period of time, the new technology came to be used in all fields including agriculture. As a result, production, employment opportunities and income increased, leading to an improvement in the standard of living of the people. In this manner, agrarian economy gave way to industrial economy. In the process, some economies progressed much faster than the others. Thus, different economies are in different stages of development today.

Efforts were made to adopt modern agricultural techniques in Indian agriculture too. As a consequence, the use of high-yielding seeds, mechanical farming, chemical fertilizers and insecticides increased. In addition to this, many innovations were made in methods of farming and production, which boosted the change in Indian agriculture. Hybridization, adoption of technology in irrigation facilities etc. led to noticeable increase in production. However, the indiscriminate use of chemical fertilizers, insecticides etc. led to environmental pollution. Land erosion caused loss of fertile land. Unlimited use of water without paying attention to renewal of ground water table reduced the ground water level. Due to haphazard use of pesticides, sources of water in many places became contaminated. As a result of all these changes, organic farming and natural farming have once again gained importance.

The changes in economic structure brought a significant change in the Indian economy. Compared to eve of political independence, relatively fewer people depend on agriculture for their livelihood. But still majority of the workforce are engaged in cultivation. However, its contribution to the national income is steadily decreasing. At present, it is the service sector which

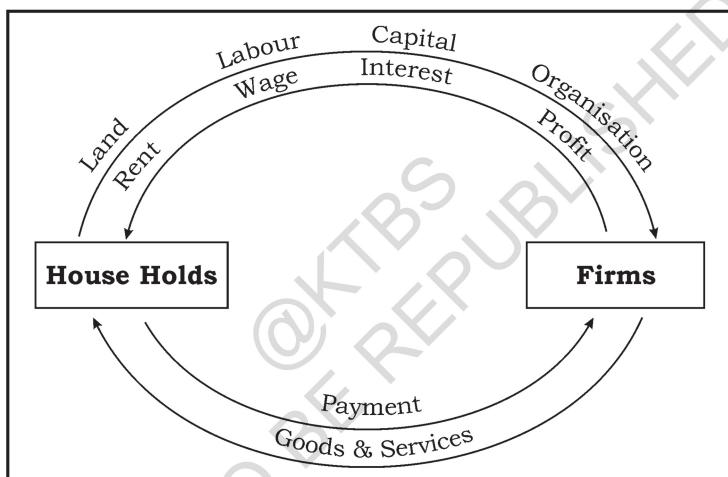
Activity: know about Population in the past and present and change in agriculture field of our villages.

is contributing the maximum to the national income. It is also providing the greatest number of employment opportunities after agriculture. The industrial sector is growing steadily and its contribution to the national income is second only to the service sector.

Sources of Income

In a simple economy, the income comes from two sources. They are: 1) the household sector and 2) the firms sector. These generate income through mutual exchange.

Look at the following diagram to understand the flow of income in a simple economies and mutual dependence between household and firm sector.

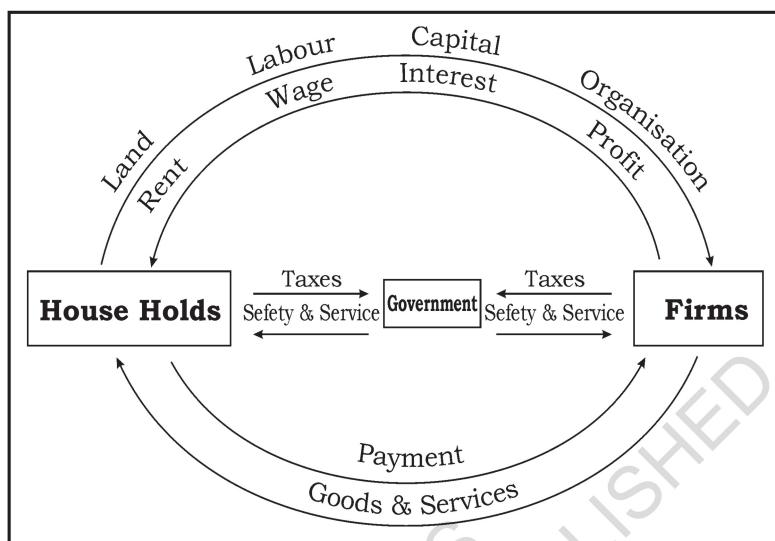


The household sectors own the factors of production namely land, labour, capital and organization, and supply them to the firms. In return, the firms provide rent for using land, wages for utilizing labour, interest for utilizing capital and profit for organization. Hence, Rent, wages, interest and profit comprise the income of household.

The firms utilize the factors of production and produce goods and services which are sold to the household sectors. The money that the household sectors pay for these goods and services comprises the income of the firms sectors.

Modern nations are welfare states. Hence, in order to earn income to undertake welfare programmes, the governments levy taxes on households and firm sectors. In return, it provides security and services like education, health, housing, electricity, transport and

drinking water facilities etc. to the household. In the same manner, the government also provides services like transport and communication facilities, security and electricity etc. to the firms. Government also gives the transfer payments to households and subsidies to firms. Let's look at the following diagram.



Sources of Employment :

In order to make a living, people work in the different sectors of the economy like agriculture, industry and service sector. Gradually, the agriculture-based nations are turning into industrial and service-oriented nations. As the Indian economy progress, many changes took place even in the agricultural sector with the adoption of modern technology. The use of technology and skilled farming practices led to the creation of a surplus labour force in the agriculture sector which brought increased disguised unemployment.

By the time, the industrial and service sectors had also begun expanding in India. The work force from the agricultural sector began to shift to industrial and service sectors. However, most of the jobs in those sectors required skilled manpower. This became the major obstacle for the unskilled labour force desiring to shift from agricultural sector. These unskilled agricultural laborers were unable to get jobs in the industrial and service sectors. Though some of them managed to get jobs after equipping themselves with the required skills through training, majority of them continued to work in the agricultural sector itself. Some agricultural households have managed to secure excellent yields through their farming skills, and

have proved to be role-models for others and thereby contributing to the country's development. Although in India the contribution of the agricultural sector to the Gross Domestic Product is reducing, the proportion of workers depending on farming is huge. The government has undertaken many programs to equip the unskilled farm workers with the necessary skills.

Static and Dynamic Economy

The word 'static' has been derived from the Greek word 'statike'. 'Statike' means 'stand still.' In economics, it refers to a situation which witnesses absolutely no changes. Static economy is a timeless economy where there are no changes at all. The fundamental factors of the economy like the size of population, availability of capital, methods of production, nature of organization and people's wants remain static without any alteration. Hence, economic development remains stunted.

During British rule, the Indian economy was a static economy. Due to the long-drawn economic exploitation of the British, India had been reduced to a poor nation. Lack of nutritious food and dearth of health facilities had led to increased death rate. As a result of poverty, there was an enormous scarcity of capital. Outdated production processes continued in agriculture and industry. Thus, the pre-independence Indian economy was static.

The word 'dynamic' has been derived from the Greek word 'dynamikos'. It refers to drastic changes or continuous change. Dynamic economics is the study of the variations that take place in an economy. It analyses the process of change that takes place from time to time in an economy. In a dynamic economy, the size of population, availability of capital, methods of production, nature of organization and people's wants keep on changing continuously. The economic development varies from year to year. As a result, the economy gets transformed into a modern economy. With the use of modern technology, the methods of production and the volume of production go on shifting. Thus, due to all these developments, people's lifestyles also keep changing.

After independence, the Indian economy has got transformed into a dynamic economy. With the expansion of medical facilities, death rate has decreased and life expectancy at birth has increased. Through the implementation of five-year plans, capital investment has risen. Adoption of modern technology has led to speedy variations in the methods of production in the agricultural and industrial sectors. Due

to this, production has improved. Standard of living of the people has changed, along with their needs. The new economic policy introduced in 1991 brought in liberalization, privatization and globalization which, in their turn, accelerated the speed of change. Consequently, the economic structure is getting reorganized. The new economic reforms has a negative impact on agricultural sector whereas there is a positive impact on service sector, where as Industrial sector is also growing slowly. The government has taken efforts to provide a 'Safety Net' to those who have been affected negatively by the new economic policy. It is working towards an inclusive growth in the nation.

EXCERCISES

I. Fill in the blanks with suitable words.

- 1) Positive change relates to _____ activities.
- 2) In the ancient economies, _____ was the main one.
- 3) There are _____ sectors in a simple economy.
- 4) 'Static economics' has been derived from the word _____.
- 5) Industrial Revolution first took place in _____.

II. Answer the following after discussing them in groups:

- 1) What is 'Positive change'?
- 2) Mention the feature of ancient economics systems.
- 3) How did the capitalist class emerge?
- 4) What are the sources of Income ?
- 5) What are the source of Employment ?
- 6) Explain the difference between static and dynamic economics.

III. Activity :

- 1) Consult your parents and list the names of crops that were grown by the farmers of your village/town 20 years ago. Compare them with the crops being grown now. Identify the changes that have taken place in the crops in your village/town in this 20-years period. Write a short essay on this development.

IV. Project :

- 1) Draw a diagram showing the sources of income of the government and explain it.