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Learn Today to Lead Tomorrow

Indian Economy

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UNIT-1

Introduction to Indian Economy

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(Structure)

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1.1 Learning Objectives

After studying the chapter, students will be able to:

- Structural Changes in Indian Economy;
- Indian Economy and Inclusive growth;
- Explain the economic growth and development : A contrast;

- Understand the growth performance of the world economy;
- Know about the study the process of economic growth;
- Learn the measurement of growth.

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1.2 Introduction

Indian economy is developing economy in which agriculture is the back bone of Indian economy. About 30 % of India's population is on the below poverty line. Mineral resources are not fully utilized. Majority of the people of India are poor. Indian economy is affected by it. Countries which are on the part of progress and which have their potential for development are called developing economies. So, India is termed as developing economy by modern schools. India is of mixed economy, both public and private sectors coexist. Industries in India are broadly divided into two categories: those that are run by the public sector and those that are licensed to be established and run by the private sector.

In recent years, there has come into existence a new branch of economics known as the "Economics of Development". It refers to the problems of the economic development of underdeveloped or backward countries. In addition to the illuminating reports of the U.N.O. on the subject, some top ranking economists like Nurkse, Dobb, Staley, Buchanan, Rostow and Ellis have made some original contributions to the Economics of Development. The main reason for the growing popularity of "Economics of Development" as a separate branch of economic theory is the increasing tendency on the part of the newly independent countries of Asia and Africa to resort to developmental planning as a means to eliminate their age-old poverty and raise living standards.

1.3 Presentation of Subject Matter

In this unit, we will study the characteristics of the Indian Economy as a developing economy, features of Indian Economy as a mixed economy as well as structural changes in Indian Economy. Besides this, we will study Indian Economy and Inclusive growth. India is among the most potential developing economies in the world. The unemployment and under employment is another important feature of Indian economy. In underdeveloped countries labour is an abundant factor. It is not possible to provide gainful employment to the entire population.

Characteristics of the Indian Economy as a Developing Economy

Indian economy has been attaining praise worthy progress in its different fields since the adoption of economic planning. In order to achieve the goal of rapid economic development, the Government of India under the able leadership of the then Late Prime

Minister Jawaharlal Nehru, has successfully adopted the path of economic planning. Till now, India has completed eleven five year plans. Due to the implementation of these five year plans, Indian economy has achieved considerable improvement over the past. Therefore, considering the level of development, Indian economy can be termed as a planned developing economy. India has its following basic features as a developing economy.

1. **National Income :** The national income in India has been increasing at a slow but steady pace. In the year 2020-2021, India had a total NI of 135.13 lakh crore, well this is a provisional estimate only. However, in the round of the fourth quarter (in the month of January-March), the country had an economic growth of 1.6%, while the GDP was calculated at ₹ 38.96 lakh crore in the fourth quarter in the year 2020-21, this is count is slightly different to ₹ 38.33 lakh crore in the fourth quarter of 2019-20.
2. **Composition of National Income :** The sectorial contribution of national income is a significant indicator of the degree of development attained in the economy. The contribution of primary sector which is composed of agriculture, forest, fishery and mining share 20.19%.
3. **Low per Capita Income :** Developing economies are marked by the existence of low per capital income. The per capita income at constant price was ₹ 94,270 in 2019-20 before it dipped to ₹ 85,110 in 2020-21 on account of the disruption in economic activities caused by COVID-19 pandemic and subsequent lockdowns. The per capita income based on Net National Income (NNI) at constant price grew by 7.5 per cent in financial year 2022 over the previous year.
4. **Capital Formation :** Capital formation is playing an imperative role in accelerating the pace of economic growth of the country. Capital formation is possible with high rate of savings in the economy. It would be of high interest to look into the estimates of gross domestic saving in India since the inception of planning. During the first four decades of planning, the rate of gross domestic savings has increased considerably.
5. **Agricultural Development :** In India, the agriculture sector has attained a considerable level of development during the seven decades of planning. Besides, agriculture is occupying a pivotal position in respect of overall economic growth by contributing towards supplies of food, raw materials and exports. The total agricultural output has increased. agriculture grow by 3.9 % in 2021-22 in comparison to 3.6% in the previous year..
6. **Modernization and Structural Change in Agriculture :** The primitive technology of cultivation, out dated land tenure system and lack of infrastructure for raising productivity were formidable barriers to agricultural advancement

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at the start of the planning period. In free India, good luck to planners that Zamindari and other intermediary land tenure system have been eliminated.

7. **Industrial Development :** The industrial sector of the country has achieved tremendous progress. During the planning period, the industrial production in the country has also increased significantly. Industrial sector to witness sharp rebound from a contraction of 7% in 2020-21 to expansion of 11.8% in 2021-22. In this way, the industrial sector has attained a considerable progress and has also become successful to diversify in its structure.
8. **Changes in Industrial Organization :** The industrial organization has also recorded a considerable development. The public sector investment has also attained considerable production in industry and has sustained the industrial transformation. Simultaneously, the private sector and joint sector have also grown considerably in respect of its industrial organization and diversified its activities for large extent.
9. **Expansion of Infrastructure facilities :** The infrastructural facility has also expanded to a significant extent. These facilities include development like transportation and communication facilities generation of electricity, irrigation facilities etc. India is expected to become the world's third largest construction market by 2022. India will require investment worth ₹ 50 trillion (US$ 777.73 billion) across infrastructure by 2022 for a sustainable development in the country. The government has given a massive push to the infrastructure sector by allocating ₹10 lakh crore (US$ 130.57 billion) to enhance the infrastructure sector. The government allocated ₹ 134,015 crore (US$ 17.24 billion) to National Highways Authority of India (NHAI), ₹ 60,000 crore (US$ 7.72 billion) for the Ministry of Road Transport and Highways, ₹ 76,549 crore (US$ 9.85 billion) to the Ministry of Housing and Urban Affairs, and ₹ 84,587 crore crore (US$ 10.87 billion) to the Department of Telecommunications to create and augment telecom infrastructure in the country. The total revenue expenditure by Railways is projected to be ₹ 234,640 crore (US$ 30.48 billion) 100 PM-GatiShakti Cargo Terminals for multimodal logistics facilities will be developed over next three years. Focus was on the PM GatiShakti - National Master Plan for multimodal connectivity to economic zones. Everything, from roads to trains, from aviation to agriculture, as well as many ministries and departments, will be integrated under the PM GatiShakti National Master Plan.
10. **Development of Financial Institutions :** After independence, India has made remarkable progress of banking, non financial institutions and insurance sector. The commercial bank of the country has attained significant progress since its

nationalization in 1969. The Government has also set up a variety of financial and other institutions so as to assist the agriculture and industrial sectors in respect of provision of raw materials credit supply, marketing, storage, research, technology and infrastructure facilities though financial arrangements. In Union Budget 2021, to support initiatives such as 'Housing for All' and 'Smart Cities Mission', the government allocated ₹ 13,750 crore (US$ 1.89 billion) to AMRUT and Smart Cities Mission. In March 2021, the Parliament passed a bill to set up the National Bank for Financing Infrastructure and Development (NaBFID) to fund infrastructure projects in India.

11. **Human Resource Development :** As far as human resource is concerned, India has achieved a moderate rate of success. The major component of human resource development included expansion of social infrastructure for making adequate provision for education, health care, water supply, sanitation and social security. The Human Development Report for the years 2021 and 2022 will be released by the end of June, 2022. As per the last Human Development Report, the HDI Rank of India is at the 131st position, with a score of 0.645.

12. **Export Increased :** The volume of export in India has also recorded a considerable increase since 1950-51. With the gradual diversification and growth of the industrial sector. India started to export various types of non-traditional products. India's merchandise export in 2021-22 (April-January) was USD 335.44 billion, an increase of 46.53% over USD 228.9 billion in 2020-21 (April-January) and an increase of 27.0% over USD 264.13 billion in 2019-20 (April-January).

13. **Employment Generation :** With the gradual development of various sectors of the economy, the country has started to generating employment opportunities for the people of the country. Economic growth positively affects job creation. In Budget 2021-22 had provided a sharp increase in provision for public investment to boost economic activity. With the Prime Minister Narendra Modi guiding the implementation, economic recovery in the country is continuing to benefit from the multiplier effect. Budget 2022-23 has further provided a strong impetus for growth, with capital expenditure being stepped up sharply by 35.40 per cent, to ₹ 7.50 Lakh crore from ₹ 5.54 Lakh crore in the current FY2022. This outlay, which is approximately 2.9 per cent of GDP, shall not only boost economic activity but also concurrently improve the employment situation in the country.

14. **Poverty :** The incidence of poverty in India has also been declined in recent years. According to Planning Commission estimates, poverty shows that the

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proportion of total population lying below the poverty line. The poverty rate, which is internationally calculated as the percentage of population living a day with less than $1.9, will ease to 7 per cent to 10 per cent in FY22. The rate had gone up to 9 per cent to 12.3 per cent in FY21.

15. **Primary Producing :** One of the basic characteristics of developing economy is that it is primary producing. A very high proportion of working population is engaged in agriculture which contributes a very large share in the national income.

Features of Indian Economy as a Mixed Economy

A mixed economy is an economic system that incorporates aspects of more than one economic system. This usually means an economy that contains both privately owned and state-owned enterprises or that combines elements of capitalism and socialism, or a mix of market economy and planned economy characteristics. This system overcomes the disadvantages of both the market as well as planned economic systems.

- **Meaning of Mixed Economy :** In a mixed economy, private and public sector go side by side. The government directs economic activity in some socially important areas of the economy, the rest being left to the price mechanism to operate. The public and private sectors co-operate each other to achieve the social objectives. The private sector is considered to be an important instrument of economic growth. Even since independence India's economic development has been guided by two aims to build up democratic means rapidly expanding and technologically progressive economy and social order based on justice and offering equal opportunity to every citizen of the country.
- **Planning With a Mixed Economy :** It is through planning in a mixed economy that the merits of a socialist economy are imported and defects of capitalism are sought to be removed. Planning providers provides all the freedom of capitalism such as production, consumption, ownership of factor of production etc. At the same time the state regulates the working of the private sector through measures like taxes, subsiding, and power, credit, etc. in keeping with the nation's interests. Moreover, planning also seeks to prevent activities such as hoarding and black markting and even resorts to rationing in case of shortages. The main challenge for planning in a mixed economy is ensuring the cooperation of both the private and public sector to achieve the targets of the plan. Moreover, there is also a need today to divert the attention of the private sector into playing a more active social role for overall development of the economy.
- **Types of Mixed Economy :** Even in the mixed economy model, our leaders had to choose between two alternatives-the mixed capitalist system, as envisaged

by Samuelson and Hansen and followed with some modifications by USA, UK and France and the mixed enterprise system, followed in several developing countries where governments interfered in the day-to-day working of the economy through a control and regulation mechanism and also participated actively in their economic activities. In the first model, the means of production are owned by private entrepreneurs while governments control and regulate the working of the economy through its economic policies, especially the monetary and the fiscal policies. In such a mixed enterprise system, the government follows a number of activities.

Features of Indian Economy as a Mixed Economy

1. **Planned Development :** After independence, India had a splender industrial base. A long period of economic stagnation against the background of increasing pressure of population followed by the burdens million of people and dislocated economic life. The promise of freedom could only be redeemed if the other fundamental rights: It has also provided Directive Principles of State Policy for more liberty. Thus, it was essential to rebuild the rural economy, to lay the foundations of industrial and scientific progress and to expand education and other social services. As a result, planning on a national scale, comprising all aspects of economic and social life has been adopted since 1951.
2. **Plan Objectives :** Indian has the beginning of planned development with the start of the first five year plan in April 1951. The central purpose of planning according to the first plan was identified as that of initiating "a process of development which will raise living standards and open out to the people new opportunities for a richer and more varied life". In a broad sense, the basic objectivities of planning in India can be grouped under four heads; growth, modernization, self-reliance and social justice.
3. **Role of Public Sectors :** Public sector has played a key role in the economic development of the country. It has helped in accelerating the rate of growth of national economy and reducing disparities in income and wealth. The changes in the distribution of outlay in the public sector, the changes in emphasis for different heads of development during the successive plans has highlighted the core aspect of our mixed economy.
4. **Private Sector :** Along with public sector, proper care has been taken for private sector. It includes not only organized industry but agriculture, small industry, trade and great deal of activity in housing and construction and other fields. The share of the private sector in agriculture that is little over one-third of our national income is contributed in the economy. It provides employment

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to three fourths of our manpower. Therefore, in a mixed economy network of institution has been established to regulate its activities. The measures have been reviewed from time to time and appropriate inputs, raw materials, marketing and technology facilities were provided especially to small sector of economy. In view of the fast changing needs of a diversified industrial economy, the government has recently announced a series of measures to further liberalize the industrial policy and procedures.

5. **Relation between Public and Private Sector :** With the rapid expansion of the economy, wider opportunities of growth arise for both the public and the private sectors. The second plan had pointed out that the two sectors have to function in union. As a whole, the plan can go through only on the basis of simultaneous and balanced development of the two sectors. The impact of public investment on the overall pace of expansion is profounding. In fact, a high level of public investment in infrastructure and key industries is a pre-conditioning for development in the private sector. The co-existence of large public sector along with free enterprises under private sector has transformed the economy into a mixed one. Some strategic basic industries are being run under the public sector while a good number of industries are being managed in private sector. Thus, many private enterprises depend on the orders which flow public activity and their growth and profitability depend directly on the expansion in public activity and their growth and profitability depend directly on the expansion in public sector investment.

6. **Role of Market Mechanism :** Market mechanism has been playing a predominant role In India. Prices of various commodities are determined by market forces, future expectations etc. But the market mechanism in India is again not completely free from state control. Besides, the central government has introduced certain controls and incentive measures for influencing the market decision. These include-budgetary measures, import controls, establishment of fair price shops for the distribution of essential commodities at reasonable prices, purchase of agriculture commodities by the government at minimum support prices.

7. **Reduction of Economic Inequalities :** Economic inequalities are the features of capitalistic economy. Inequalities in the distribution of income and wealth of the extreme degree are economically harmful, socially unjust and politically undesirable. Extreme inequalities reduces social welfare and generate class-conflicts inequalities in the distribution of income and wealth. In this direction, the Government has imposed direct taxes at progressive rates through income tax, tax on capital gains, wealth tax, death duties, gift tax etc. Again, in order to

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provides necessary support to the poorer section of the society, the Government has undertaken various welfare measures like free medical facilities, free education, old age pensions, and widow pensions along with other poverty alleviation programmers in rural and urban areas of the country. But in spite of all these, mixed economic framework in India has accentuated economic inequalities.

Advantages and Disadvantages of Mixed Economy

A. Advantages of Mixed Economy

If Indian economy has registered much faster and commendable economic growth, especially after the opening up of the economy, it is in no small measure due to the firm foundation laid by the imperatives of the mixed economy. Thanks to planner, the mixed economy pattern government had adopted, Today, India has emerged as a leading industrialized country amongst the developing countries of the world. Indigenous capacity in a number of industries has been built to a point that except for certain industrial raw materials such as petroleum, sulphur, rock phosphate and non-ferrous metals where our natural endowment is limited and certain high-tech sophisticated items of machinery, there are very few areas in which imports are necessary for sustaining the growth of economy.

1. Producers and consumer have sovereignty to choose what to produce ? and what to consume? but production and consumption of harmful goods and services may be stopped by the government.
2. Social cost of business activities may be reduced by carrying out cost-benefit analysis by the government.
3. As compared to Market economy, a mixed economy may have less income inequality due to the role played by the government.
4. Monopolies may be existing but under close supervision of the government it can be controlled.

B. Disadvantages of Mixed Economy

Some of the disadvantages have been found in the functioning of mixed economy in India. Undue Emphasis on the Growth of Public Sector, it has already been stressed earlier that the Government of India while implementing its socialistic pattern of the society under the mixed economy gave undue emphasis on the growth of the public sector. This could be easily understood from the fact that at the dawn of the India's five year plans, there were only five centrally owned public sector enterprises including defence and postal services with a total investment of INR 295 million. By 1991, these investments had shot up to more than INR 20,00,000 million. The number of public sector

enterprises owned by the central government has gone up to more than 225 and more than 6 times the number of the enterprises owned and managed by state governments and local self governments.

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Structural Changes in the Indian Economy

The purpose of economic development is not only to increase the output but also to change the composition of output. Thus, structural change in an economy consists of change in the composition of output of the economy. The Indian economy has witnessed several such changes in its structure during 1990s as this period marked transition in her industrial economy. India had a more balanced structural change and a slower insertion in the world market, although some sectors, such as software, steel, automotive and pharmaceuticals are recently increasing their share in the world markets. Looking at subsector level, it is clear that, apart from agriculture, workers were employed in manufacturing, wholesale, retail trade, hotels, most of the restaurant and community, social and personal services. However, the highest employment growth rates is found in construction, real estate, insurance and financial intermediation.

- **Structural Changes in Indian Economy :** Apart from the growth in quantitative terms, there have been significant changes in India's economic structure since independence.

1. **Changing Sectoral Distribution of Domestic Product :** Change in composition of domestic product or change in national income by industry of origin refers to change in relative significance or share of different sectors of the economy. Generally, an economy is divided into three major sectors viz. primary, secondary and tertiary sectors.
2. **Share of Primary Sector :** The primary sector includes agricultural and allied activities. With the development process, significance of primary sector declines while that of secondary and tertiary sectors increases. After independence, Indian economy has also experienced such changes. Share of primary (comprising agriculture, forestry, fishing, and mining & quarrying) have been estimated as 21.82 percent.
3. **Share of Secondary and Tertiary Sector :** The secondary sector is important because it promotes the development of the Primary and the Tertiary sectors. It also contributes significantly to the GDP of India and employment basket. It also helps to convert the products from primary sector into consumer usable products. The services sector, that is tertiary sector, is the largest sector of India. Gross Value Added (GVA) at current prices for the services sector is estimated

at 96.54 lakh crore INR in 2020-21. The services sector accounts for 53.89% of total India's GVA of 179.15 lakh crore Indian rupees. Whereas, the industry sector contributes 25.92% and Agriculture and allied sector share is 20.19%.

4. **Growth of Basic Capital Goods Industries :** When country attained independence, the share of basic and capital goods industries in the total industrial production was roughly one-fourth. Under the second plan, a high priority was accorded to capital goods industries, as their development was considered a pre-requisite to the overall growth of the economy. Consequently, a large number of basic industries which produce capital equipment and useful raw materials have been set up making the country's industrial structure pretty strong.
5. **Expansion in Social Overhead Capital :** Social overhead capital broadly includes transport facilities, irrigation systems, energy production, educational system and organization and health facilities. Their development creates favourable conditions for growth and also for better human living. The transport system in India has grown both in terms of capacity and modernization. The railways route length increased by more than 9000 kms and the operation fleet practically doubled. The Indian road network is now one of the largest in the world as a result of spectacular development of roads under various plans. India has also seen growth in life- expectancy and literacy rate but education has not expanded at a desired rate.
6. **Progress in the Banking and Financial Sector :** Since independence, significant progressive changes have taken place in the banking and financial structure of India. The growth of commercial banks and cooperative credit societies has been really spectacular and as a result of it the importance of indigenous bankers and money-lenders has declined. Since nationalization, these banks have radically changed their credit policy. Now more funds are made available to priority sectors such as agriculture, small-scale industries, transportation, etc.
7. **Capital Goods :** Indian economy has progressed structurally when we consider the growth of capital goods industries, expansion of the infrastructure, performance of the public sector, etc.
8. **Change in Employment Pattern :** In India not only the share of people employed in the primary sector remained high (62%), but the absolute number of agricultural workers increased more than 39%. Although the rise of employment was higher in the secondary and tertiary sectors respectively. The number of persons working in agricultural activities was more than the quantity of workers in the secondary and tertiary sectors.

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9. **Employment in Informal Sector :** The distinction between formal and informal sectors is taken into account; the contribution of labour reallocation in terms of productivity growth is reduced. The movement of workers from agriculture to other sectors increased labour productivity; however, this effect was partially counterbalanced by the movement of workers from formal to informal sectors, where not only productivity but also wages are very low and illiteracy is substantial.
10. **Migration from Rural to Urban :** It must be stressed that in both area the labour productivity of industry and in services was much higher than the that of agriculture. Therefore, the transfer of many employees from agriculture to industry and services has contributed to the pace of economic growth. The possibility of young school leaners to enter industry or services rather than remaining unemployed or underemployed in agriculture, thus gaining much higher incomes or wages, was even more important. In India most of the people moving from rural to urban areas could only find jobs in industry or service activities of the informal sector, earning is much less than people working in the formal sector of the economy. Above factors over the years are believed to have created an element of dynamism in the country's economy and one can now hopefully say that it would sustain development in the future.

Indian Economy and Inclusive Growth

Reforms undertaken in the early 1990s made India one of the world's fastest growing economy. The Indian growth story has been one of the high GDP growth economy but primarily driven by the growth in services sector. Inclusive growth thus seeks to broaden the flow of benefits of globalization towards the currently excluded sections. However, for achieving inclusive growth, it is essential that the diffusion of opportunities be supported with good governance and accountability. The government and private sector can play complementary roles in driving inclusive growth. There is a need for the public and the private sector in India to have a unified approach towards how they can extend, innovate, and collaborate in new ways to drive inclusive growth. It presents the opportunities available for building an inclusive India by identifying key levels in governance, education, energy and resources, telecom and technology, infrastructure, healthcare, financial inclusion, and business model innovation.

Meaning and Concept of Inclusive Growth

Inclusive growth basically means broad based growth, shared growth, and propoor growth. It decreases the rapid growth rate of poverty in a country and increases the involvement of people into the growth process of the country. Inclusive growth by its very definition

implies an equitable allocation of resources with benefits incurred to every section of the society. But the allocation of resources must be focused on the intended short and long term benefits of the society such as availability of consumer goods, people access, employment, standard of living etc. It sets a direct relationship between macro and micro determinant of the economy and its growth. The micro dimension includes the structural transformation of the society and macro dimension includes the country's GNP and GDP. To maintain rapid and sustainable growth is some time very difficult this is because resources vaporizes during the allocation and may give rise to negative externality such as rise in corruption which is major problem in the developing small nation. But, however, it has created an environment of equality in opportunity in all dimension of livelihood such as employment creation, market, consumption, production, and has created a platform for people who are poor to access good standard of living. If we focus on the inequality between poor and rich household in a country we can reach to an optimal solution so that we can minimize the differences.

Inclusive growth has been projected as the strategic pillar in the forthcoming 12th five year plan. The policy designers are of the opinion that the 'inclusive growth strategy for the 12th five year plan should be based on the experience of inclusive outcomes of the 11th five year plan'. The approach to 12th five year plan titled 'Faster, Sustainable and More Inclusive Growth' defines inclusive growth as: Inclusive growth should result in lower incidence of poverty, universal access to school education including skill and education, better opportunities for wage employment and livelihood, improvement in health outcomes, improvement in provision of basic amenities like water, electricity, roads, sanitation and housing.

1. **The opportunity** : The objectives of an inclusive growth agenda is to reduce poverty, improve quality of life, and ensure to the extent possible, that all segments of society benefit from the economic growth of the country. A number of macro and micro level interventions have shown to be conducive to promoting inclusive growth. At the macro level, recommendations such as improving fiscal discipline, trade liberalization, openness to FDI, privatization, deregulation, tax reforms, labour market flexibility, providing social safety nets, reorientation of public expenditure, and legal and political reforms can be useful in guiding policy discussions for promoting rapid and inclusive growth in developing countries. At the micro level, reducing income and non-income related inequality, improving public infrastructure, healthcare, education, access to markets, accountability, women's empowerment, role played by civil society organizations, ana good governance can help accelerate poverty reduction.

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2. **Governance :** Good governance is at the core of improving the delivery of essential publicly provided services. It provides the mechanism for linking inclusion, decision-making, and accountability. Problems in infrastructure, critical for building an inclusive India, can often betrayed back to poor governance. Red tapism, lack of accountability, and corruption has plagued India since independence. The government has launched a large number of initiatives over the years in order to achieve the objective of rapid growth coupled with poverty alleviation and inclusiveness. Many of these initiatives have failed to achieve their goals because of poor design, insufficient accountability, and corruption at various levels. Without effective implementation, even substantial government expenditure results in limited success.
3. **Education :** A better education is often an important means to better jobs, increased income, and a better quality of life. To illustrate, Japanese investments in education after the Second World War helped it transform from a defeated nation to an industrial nation that created innovative products, increased employment, and provided inclusive growth to its citizens. Over the past few decades, the global economy has shifted from being manufacturing-centric to acknowledge driven one. The service sector contribution grows by 8.2 percent in 2021-22. India's increasing integration with the global economy and the growth of sectors such as IT, BPO, and financial services have led to an increased demand for knowledge workers.
4. **Energy and Resources :** The energy sector suffers due to very high distribution losses and theft. Lack of competition in many critical segments of the industry, especially distribution, results in inefficiencies as the existing monopolies of state owned distribution continue to underperform. This results in unreliable power supply, which hampers agriculture and industry and also penalizes households while causing large welfare losses. Rural electrifications an important tool to bring about inclusive growth by making electricity available to farmers and in rural areas. Electricity supply is thus one of the crucial inputs in the context of inclusion. Reforms such as strengthening of regulation
5. **Telecom and Technology :** The technology and telecom sectors in India have experienced tremendous success. The past decade has seen an explosion in the growth of communications connectivity and the technology industry in India. In 2022, the industry is predicted to contribute 8% of India's GDP, up from around 6.5% today. With the government pledging additional reforms, the

sector is optimistic heading into the new year, hoping for a favorable outcome on a 5G spectrum price at the next mega auction. Telecom Sector has various expectations from the upcoming budget 2022 that is going to be happen next month, 1 February 2022.

6. **Infrastructure :** Investment in infrastructure drives the growth of a country's economy. In 1980, India had a greater investment and infrastructure base than China. India's population, availability of natural resources, and low cost base make it attractive as a manufacturing destination and the manufacturing sector can subsequently drive growth in jobs and incomes. However, for manufacturing to be competitive and sustainable requires an efficient supply chain and physical infrastructure for procurement of raw materials, storage of work-in-process and finished goods, and speedy transportation to customer based on demand.
7. Healthcare : The healthcare industry in India promises to be one of the fast growing ones. The country has world class hospitals, highly qualified medical personnel, and is gradually emerging as a preferred destination for medical tourism for citizens of the developed world. However, the actual delivery of healthcare services is inadequate for a large section of the local population. India compares poorly to other developing countries on parameters, such as hospital bed density, physician density, number of doctors graduating every year from Indian universities, and public expenditure on healthcare. Also, the low penetration of health insurance implies that a serious illness or hospitalization causes significant economic hardship to many sections of society, especially the urban operand the rural population. In the context of healthcare, inclusive growth implies that healthcare resources are allocated equitably such that the benefits are shared by all segments of the society. Today, healthcare is not easily available to all sections of the Indian society.
8. **Financial Inclusion :** A society can be considered financially inclusive when all segments and strata of society have access to financial services and timely and adequate sources of formal credit. Similar to access to education and healthcare, the access to finance is an important one for all segments of society, and especially to the poor and marginalized sections. For example, the Community Reinvestment Act of 1997 in the USA mandates banks to offer credit to all population segments within its area of operation and prevents specific targeting of the rich. Today, the bulk of India's population lacks access to financial products and services, such as saving.

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1.4 Meaning of Economic Development

Economic development is a process whereby an economy's real national income as well as per capita income increases over a long period of time. Here, the process implies the impact of certain forces which operate over a long period and embody changes in dynamic elements. It contains changes in resource supplies, in the rate of capital formation, in demographic composition, in technology, skills and efficiency, in institutional and organisational set-up. It also implies respective changes in the structure of demand for goods, in the level and pattern of income distribution, in size and composition of population, in consumption habits and living standards, and in the pattern of social relationships and religious dogmas, ideas and institutions. In short, economic development is a process consisting of a long chain of inter-related changes in fundamental factors of supply and in the structure of demand, leading to a rise in the net national product of a country in the long run.

1.5 Definitions of Economic Development

The term 'economic development' is generally used in many other synonymous terms such as economic growth, economic welfare, secular change, social justice and economic progress. As such, it is not easy to give any precise and clear definition of economic development. But in view of its scientific study and its popularity, a working definition of the term seems to be quite essential. Economic development, as it is now generally understood, includes the development of agriculture, industry, trade, transport, means of irrigation, power resources, etc. It, thus, indicates a process of development. The sectoral improvement is the part of the process of development which refers to the economic development. Broadly speaking, economic development has been defined in different ways and as such it is difficult to locate any single definition which may be regarded entirely satisfactory.

1.6 Characteristics of an Developed Economy

A developed economy is the characterised by increase in capital resources, improvement in efficiency of labour, better organisation of production in all spheres, development of means of transport and communication, growth of banks and other financial institutions, urbanisation and a rise in the level of living, improvement in the standards of education and expectation of life, greater leisure and more recreation facilities and the widening of the mental horizon of the people, and so on. In short, economic development must

break the poverty barrier or the vicious circle and bring into being a self-generating economy so that economic growth becomes self-sustained.

The main characteristics of developed countries are as follows:

1. Significance of Industrial Sector.
2. High Rate of Capital Formation.
3. Use of High Production Techniques and Skills.
4. Low Growth of Population.

These are discussed in below.

1. **Significance of Industrial Sector:** Most of the developed countries in the world have given much importance of the development of industrial sector. They have large capacities to utilise all resources of production, to maximise national income and to provide employment for the jobless people. As we are quite aware that these countries receive the major portion of their national income from the non-agriculture sectors which include industry, trade, transport, and communication. For instance, England generally receives nearly 50% of her national income from industrial sector, 21% from transport and commerce, 4% from agriculture and 25% from other sectors. The same case is with the U.S.A., Japan and other West European countries. But in India and other developing countries agriculture contributes, say, 35 to 40 percent, to their national income.
2. **High Rate of Capital Formation:** Developed countries are generally very rich, as they maintain a high level of savings and investment, with the result that they have huge amount of capital stocks. The rate of investment constitutes 20 to 25 percent of the total national income. The rate of capital formation in these countries is also very high. Besides this, well-developed capital market, high level of savings, broader business prospects and capable entrepreneurship have led to a high growth of capital formation in these economies.
3. **Use of High Production Techniques and Skills:** High production techniques and skills have become an essential part of economic development process in the developed countries. The new techniques have been used for the exploitation of the physical human resources. These countries have, therefore, been giving priority to the scientific research, so as to improve and evolve the new and technique of production. Consequently, these countries find themselves able to produce goods and services of a better equality comparatively at the lesser cost. It is because of the use of high production techniques and latest skills,

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that the countries like Japan, Germany and Israel could have developed their economies very rapidly, though they have limited natural resources.

4. **Low Growth of Population:** The developed countries, like the U.S.A., the U.K. and other Western European countries have low growth of population because they have low level of birth rate followed by low level of death rate. Good health conditions, high degree of education and high level of consumption of the people have led to maintain low growth of population followed by low level of birth and death rates. The life expectancy in these countries is also very high. The high rate of capital formation on the one hand and low growth of population have resulted in high level of per capita income and prosperity in these countries. Consequently, the people in these countries enjoy a higher standard of living and work together unitedly for more rapid economic and industrial development of the nations. Besides this, the entire society, its structure and values are found to be dedicated to the goal of rapid economic and industrial development. The position of individuals in the society is decided by the ability of the persons and not by their birth, caste or creed. Dignity of labour is maintained. The economic motive and strong desire to lead a better social life always inspire people to contribute to the process of development. The main objective of rapid economic development, particularly in the developed economies is to achieve the level of stagnant economic growth, so that they may maintain the existing economic status and exercise control over business cycle.

1.7 Distinction between Developed and Underdeveloped Economies

We may now distinguish between the features of an underdeveloped economy from that of developed one as follows:

1. Underdeveloped economies are distinguished from developed economies on the basis of per capita income. In general, those countries which have real per capita incomes less than a quarter of the per capita income of the United States, or roughly less than 5000 dollars per year, are categorized as under-developed countries.

2. An underdeveloped economy, compared with an advanced economy, is underequipped with capital in relation to its population and natural resources. The rate of growth of employment and investment in such an economy lags

behind the rate of growth of population. The resources are not only employed but also underemployed. In technical jargon, the production possibility frontier of a poor country is far ahead of the actual production curve, whereas the gap between the potentiality and actual utilisation of resources is narrow in a developed economy.

3. High rate of growth of population is an important characteristic of most of the underdeveloped economies. Population growth in underdeveloped countries neutralises economic growth. In advanced economies, the case is different. As Prof. Hansen points out, one of the empirical tests of secular stagnation in advanced economies is the declining rate of population growth. The stagnation problem in a developed economy is a problem of population, natural resources and technology failing to keep pace with capital accumulation.
4. The central problem of underdeveloped economies is the prevalence of mass poverty which is the cause as well as the consequence of their low level of development. Shortage and scarcity are the main economic problems in these economies, whereas the affluent societies of advanced countries have economic problems resulting from abundance.
5. In an underdeveloped economy, the fundamental problem is that of output, real income or the standard of living, as these economies are characterised by low productivity, low income and a poor standard of living. A vast majority of people in an underdeveloped country are illclothed, undernourished and without adequate shelter. To use Rostow's terminology, economies of poor countries similar to those of a traditional society, where modern science and technology are either not available or not regularly and systematically applied. On the other hand, most of the developed countries at present enjoy a high rate of mass-consumption. In their economies, per capita real income has risen to a level at which a large number of people can afford consumption transcending food, shelter and clothing.
6. Capital deficiency is the main cause of poverty of a poor country, while affluent capital accumulation is the main cause of stagnation of an advanced country.
7. In an underdeveloped economy, the problem of under-employment is more important than that of unemployment, whereas a developed economy may have a cyclical unemployment problem. There is chronic unemployment in an underdeveloped economy. An advanced economy may have unemployment occasionally due to business fluctuations and a low marginal propensity to

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consume. Whereas an under developed economy is confronted with the problem of disguised unemployment in the sense that even with unchanged techniques in agriculture could be removed without reducing agricultural output. Thus, in a developed economy, unemployment means waste of resources, while in an underdeveloped economy, it is of disguised type.

8. Poor countries are poor in technology, advanced countries are advanced in technology. In fact, the level of technology attained in production is a reliable indication of the level of economic development. Employment of advanced technology goes along with large capital resources, high attainments in the fields of scientific research, greater availability of entrepreneurial skill and a good supply of efficient skilled labour. Thus, development of technology is the basic objective of the backward economy whereas development of technology no longer remains the overriding objective of an affluent society.

1.8 Difference between Economic Growth and Economic Development

The difference between economic growth and economic development are:

1. Economic Growth is quantitative while economic development is qualitative.
2. Economic growth is comparatively a narrow concept and development is much more comprehensive.
3. Economic growth refers to increase in the total output of final goods and services in a country over a long period of time. In contrast, economic development refers to progressive change in the socio-economic structure of the country. It includes gender equality, change in composition of output, shift of labour force from agriculture to other sectors.
4. Economic growth is easy to realize as only monetary aspect is involved. But, it is very difficult to attain the goal of development as it involves many socio-economic-political aspects.
5. Economic growth can easily be estimated by real GDP or Real Per Capital income. But it is very difficult to measure development as it has some aspects that can't be quantified. Economic development however is indicated by Human Development Index.
6. Economic growth can take place without Economic development; however, economic development can't take place without economic growth.

The difference between extensive and intensive growth can be summarized as below :

1. Extensive growth refers to growth in total output level of an economy. Intensive growth refers to increase in per capita level of the output.
2. If output takes a jump due to unexpected one time force, it is called extensive growth. If there is continuous expansion in output due to some positive change over time, it is called intensive growth.
3. Extensive growth is temporary and short lived. However intensive growth is permanent and has long lasting effects.
4. Extensive growth is relevant to study aggregative phenomenon such as economies of scale. Intensive growth is relevant to study the increase in standard of living of the people of a country.

1.9 Comparison of Economic Growth and Economic Development

Economic	Development	Economic Growth
Concept:	Normative concept	Narrowed concept than economic development
Scope:	Concerned with structural changes in the economy	Growth is concerned with increases in the economy's output
Growth:	Development relates to growth of huma capital indexes, a decrease in inequality figures, and structural changes that improve the general population's quality of life	Growth relates to a gradual increase in one of the components of Gross Domestic Product: consumption, government spending, investment, net exports
Implication:	It implies changes in income, saving and investment along with progressive changes in socio-economic structure of	It refers to an increase in the real output of goods and services in the country like increase the income in savings, in investment etc.
	country (institutional and technological changes)	
Measurement:	Qualitative. HDI (Human Development Index), gender-related index (GDI), Human poverty index (HPI), infant mortality, literacy rate etc.	Quantitative Increase in real GDP. Shown in PPF.

Effect:	Brings qualitative and quantitative changes in the economy	Brings quantitative changes the economy

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1.10 Economic Development and Economic Growth

By a "developed" economy, people roughly mean ones with a high, persistently-growing percaptia income which is not simply based on resource extraction (i.e., oil) or remittances or rentierism— an industrial (or, if there is such a thing, post-industrial) economy which makes most of its participants reasonably and increasingly prosperous. While there are of course differences among them—the United States is not New Zealand, which is not Belgium, which is not Finland, which is not Japan—they are all more similar to each other than they are to the vast variety of "undeveloped", "under-developed", or (most optimistically) "developing" economies across the world. (Some people refer to the developed countries as "the North" and the others as "the Scuth"; this drives me up the wall, if only from looking at where China and Australia are on the map.) Economies in the first category tend to stay there; so, sadly, do countries in the second. Development economics is the sub-discipline of economics which attempts to study how economies which have not attained this happy condition can be made to do so, and the factors which hold others back.

Normally in economic textbooks, growth and development are used synonymously, and this usage is widely acceptable. However, in particular, the two terms have been distinguished by different economists as follows:

1. To some economists, economic development refers to the process of expansion of backward economies, while economic growth relates to that of advanced economies.
2. **Schumpeter**, however, uses the term "economic development" as a spontaneous and discontinuous change in the stationary state which disturbs the equilibrium state previously existing. And the term "economic growth" is used to denote a steady and gradual change in the long run which comes through a general increase in the rate of saving and population in a dynamic economy.
3. **Prof. Kindleberger** has given the differences between growth and development as; "Growth may well imply not only more output and also more inputs and more efficiency, i.e., an increase in output per unit of input. Development goes beyond these to imply changes in the structure of outputs and in the allocation of inputs by sectors. By analogy with human beings to stress growth involves focusing

on height and weight, while to emphasize development, draws attention to the change in functional capacity in physical coordination. For example, growth without development-more and more steel in the Soviet Union or more and more coffee in Brazil-leads nowhere. It is virtually impossible to contemplate development without growth because change in function requires a change in size. Until an economy can produce a margin above its food, through growth, it will be unable to allocate a portion of its resources to other types of activity".

4. To some, economic development is the outcome of conscious and deliberate efforts involved in planning. Economic growth, on the other hand, signifies the progress of an economy under the stimulus of certain favourable circumstances, e.g., the progress achieved by the United Kingdom during the Industrial Revolution.

5. In his simple words, **A. Maddison** says, "The raising of income levels is generally called economic growth in rich countries and in poor ones it is called economic development". **Mrs. Hicks** has also expressed almost the same views and said that economic development refers to the problems of underdeveloped countries and economic growth to those of advanced countries she points out that the problems of underdeveloped countries are concerned with development of unused resources, even though their uses are well-known; while those of advanced countries are related to growth, most of their resources being already known and developed to a considerable extent.

6. According to **Prof. Mehta,** however, the term "growth" has quantitative significance. Growth suggests an increase in the quantity or volume of something. An increase in a country's population, national income; per capita income, consumption, saving, investment, foreign trade etc. over a period, all imply growth. In economics, however, growth strictly means an increase in real income, gross and per capita. On the other hand, development is a process of expansion, fulfilling the desire to have an increase in national income. From the above will be clear, the distinction and interface of growth and development.

1.11 Measuring of Growth and Production Possibilities

Economic growth is the increase in the amount of the goods and services produced by an economy over time. It is conventionally measured as the percent rate of increase in real gross domestic product, or real GDP. Growth is usually calculated in real terms, i.e. inflation-adjusted terms, in order to obviate the distorting effect of

inflation on the price of the goods produced. In economics, "economic growth" or "economic growth theory" typically refers to growth of potential output, i.e., production at "full employment".

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As an area of study, economic growth is generally distinguished from development economics. The former is primarily the study of how countries can advance their economies. The latter is the study of the economic aspects of the development process in low-income countries. See also Economic development.

Since economic growth is measured as the annual percent change of gross domestic product (GDP), it has all the advantages and drawbacks of that measure.

Economic Growth: Measurement

Economic growth is the sustained increase in welfare of an economy nation, region, city together with the ongoing changes in that economy's industrial structure; public health, literacy, and demography; and distribution of income. In the long run, as this economic transformation evolves, so do social, political, and cultural norms. Societies change profoundly and multi-dimensionally, as economic performance improves. To measure economic growth is to quantify this increase in welfare and to endow with numerical precision these large-scale economic and social changes. Given the breadth of possibilities, it is impossible to undertake this measurement exercise without guidance of what can be pared away, what is essential from some view on the causes of growth (see, e.g., Economic Growth: Theory).

This article sets down some key (measurement) facts concerning economic growth, and documents how they have evolved, if at all, over time. In doing this, the article attempts also to illustrate the historical interplay between two lines of research, measurement of and theories about economic growth, each influencing the other.

1. **National Income:** The panorama above of profound social and economic changes can be simplified dramatically by concentrating on just a single key economic variable, income per capita. (We will return in Sect. 8 below to issues of broader structural transformations). Income per capita is the per head measure of the total value of all goods and services produced in an economy. Taking national income measured by either gross national product (GNP) or gross domestic product (GDP), or its regional counterpart and dividing it by population in the appropriate nation or region gives a convenient first measure

on the state of economic well-being. Since total income is the same as total output, this measure might sometimes be usefully replaced by output per worker, or labor productivity, where the denominator is then the size of the labor force; or, even output per workerhour, where the measure then takes into account the time spent working by the labor force. In some detailed analyses, these alternatives can provide different useful insights into economic performance different countries, at different times, have had their labor force markedly different from their population, or have had workers and make different choices on the length of their workday.

However, for the kind of long-horizon, large-scale developments that are typically of interest in economic growth, these differences are inessential. Potentially more important is whether this one measure can suitably proxy for the wide spectrum of different variables of concern in economic growth. Across countries, per capita income is positively correlated with a broad range of alternative indicators for economic performance including life expectancy, (the negative of) infant mortality, and adult literacy.

1.12 Factors Affecting Economic Growth

The process of economic growth is a highly complex phenomenon and is influenced by numerous and varied factors such as political, social and cultural factors. As such economic analysis can provide only a partial explanation of this process. To repeat here the remark of Prof. Ragnar Nurkse in this connection, "Economic development has much to do with human endowments, social attitudes, political conditions and historical accidents. Capital is a necessary but not a sufficient condition of progress". The supply of natural resources, the growth of scientific and technological knowledgeall these too have a strong bearing on the process of economic growth. We shall briefly notice some of these factors one by one.

Economic Factors

The following are the important factors which determine the economic growth of an economy.

1. **Natural Resources:** The principal factor affecting the development of an economy is the natural resources. Among the natural resources, we generally include the land area and the quality of the soil, forest wealth, good river system, minerals and oil resources, good and bracing climate, etc. For economic

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growth, the existence of natural resources in abundance is essential. A country deficient in natural resources may not be in a position to develop rapidly. In fact natural resources are a necessary condition for economic growth but not a sufficient one. Japan and India are the two contradictory examples. As pointed out by Lewis, "other things being equal man can make better use of rich resources than they can of poor". In less developed countries, natural resources are unutilised, underutilized or misutilised. This is one of the reasons of their backwardness. There is little reason to expect natural resource development if people are indifferent to the products or service which such resources can contribute. This is due to economic backwardness and lack of technological factors. According to Professor Lewis, "A country which is considered to be poor in resources may be considered very rich in resources some later time, not merely because unknown resources are discovered, but equally because new methods are discovered for the known resources". Japan is one such country which is deficient in natural resources but it is one of the advanced countries of the world because it has been able to discover new use for limited resources.

2. **Capital Formation:** Among several economic factors, capital formation is another important factor for development of an economy. Capital may be defined as the stock of physical reproducible factors of production. Capital accumulation and capital formation, both of these terms carry the same meaning which may be understood simply by the stock of capital. As we know, capital formation is cumulative and self-feeding and includes three interrelated stages; a) the existence of real savings and rise in them; b) the existence of credit and financial institutions to mobilise savings and to divert them in desired channels; and c) to use these savings for investment in capital goods.

   Low prospensity to save in underdeveloped countries is due to low per capita income of the people, which may not be raised merely by voluntary savings. Hence, the rate of per capita savings can be increased by emphasizing forced savings which will reduce consumption and thereby release savings for capital formation. Forced savings can be possible through the implementation of a proper fiscal policy. In this regard, taxation, deficit financing and public borrowing are better instruments in the hands of the State to collect savings and accumulate capital. Nurkse's suggestion to use unemployed or underemployed rural youths in construction works has importance for capital formation in backward economies. In addition to it, the external resources like foreign

loans and grants, and larger exports can also help these economies in capital formation.

The capital formation possesses special significance, as it is key to economic growth, particularly in backward economies. It increases sectoral productivity in the economy on the one hand and enhances ultimately national output by raising effective demand, on the other. According to Kuznets' estimates, during modern economic growth the gross capital formation and net capital formation was gradually between 11.13 to 20 percent and 6 to 12.14 percent in developed countries. According to Lewis, the rate in underdeveloped countries was 5 percent or less which should be raised to the level of 12 to 15 percent.

3. **Technological Progress:** The technological changes are most essential in the process of economic growth. Adam Smith, the father of political economy, pointed out the great importance of technological progress in economic development. Ricardo visualised the development of capitalist economies as a race between technological progress and growth of population. The great importance of technological progress in capitalist development was recognised by Karl Marx too.

   There is no doubt that technological progress is a very important factor in determining the rate of economic growth. In fact, even capital accumulation is not possible without technical progress. A country may be adding to its means of transportation and communications, its power resources and its factories.

   According to modern technique, it is called widening of capital. The use of improved techniques in production and technological progress bring about a significant increase in per capita income. Technological progress has something to do with the research into the use of new and better methods of production or the improvement of the old methods. Sometimes technical progress results in the availability of natural resources. But generally technological progress results in increase in productivity, e.g., green revolution. In other words, technological progress increases the ability to make a more effective and fruitful use of natural and other resources for increasing production. By the use of improved technology it is possible to have greater output from the use of given resources or a given output can be obtained by the use of a smaller quantity of resources.

   It is a matter of common knowledge that technological progress adds greatly to our ability to make a fuller use of the natural resources, e.g., generation of hydro-electricity. With the aid of power - driven farm equipment a marked increase has been brought about in agricultural yields per acre and per worker.

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Technical progress also increases the ability to make a more effective use of capital equipment.

Technological progress has very close connection with capital formation. In fact, both go hand in hand. Without capital formation technical progress is out of the question because heavy investment is required for making use of better and more efficient methods of production, although after they are well established, capital cost per unit of output may fall.

Thus, technological progress has a very important role to play in the economic development of a country. No backward country can hope to march ahead on the road of economic development with out adopting a newer and newer techniques of production and unless it is assisted in its march by technological progress. We have a already brought out the importance of capital accumulation in economic growth. But capital accumulation promotes economic growth because it facilitates technological improvements, which raise labour productivity and thus add to the national and percapita income.

4. **Human Resources:** A good quality of population is very important in determining the rate of economic progress. Instead of a large population a small but high quality of human race in a country is better for development. Thus, for economic growth, investment in human capital in the form of educational and medical and such other social schemes is very much desirable. According to **Peter Drucker** : "The most important requirement of rapid industrial growth is people. People ready to welcome the challenge of economic change and opportunities in it. People, above all, who are dedicated to the economic development of their country, and to high standards of honesty, competency, knowledge and performance. What are needed beyond all else are leadership and example, and that, only the right kind of people can provide". Prof. Drucker stressing the significance of human capital says further : "Capital without people is sterile, but people can move mountains without capital. Development, therefore, requires rapid growth of human talents and opportunities to employ them".

5. **Population Growth:** Labour supply comes from population growth. But the population growth should be normal. A galloping rise in population retards economic progress. Population growth is desirable only in a under-populated country. It is, however, unwarranted in an overpopulated country like India. In fact, a high population growth at the rate of 2.5 percent per annum is very much detrimental to the economic growth of our country.

6. **Social Overheads:** Another important determinant of economic growth is the provision of social overheads like schools, colleges, technical institutions, medical colleges, hospitals and public health facilities. Such facilities make the working population healthy, efficient and responsible. Such people can well take their country economically forward.

7. **Organisation:** In the process of growth, organisation is very important. It is organization that emphasises maximum use of the means of production in production. Orginisation is complementary to capital and labour and helps production to reach the maximum level. In the modern economic system, the entrepreneur performs the duty of an organiser and bears all risks and uncertainties. Hence, entrepreneurship is an indispensable part in the process of economic growth. For instance, the Industrial Revolution in England succeeded because of the entrepreneurship.

   Most of the underdeveloped countries in the world are poor not because there is shortage of capital, weak infrastructure, unskilled labour and deficiency of natural resources, but because of acute deficiency of entrepreneurship.

   Myrdal rightly comments, "the Asian countries lack entrepreneurship not because they are deficient in capital or raw materials but because they are deficient in persons with right attitude for entrepreneurship". Behind Japan's rapid economic growth there is only one reason that it has entrepreneurship in abundance. It is, therefore, essential in LDCs to create climate for promoting entrepreneurship by emphasising education, new researches, and scientific and technological developments. Apart from it, the state should also give priority to necessary imports of machines, raw materials and equipments to provide facilities for wider markets, and to allow tax rebates, special grants and loans to the new entrepreneurs for starting business or industries particularly in the undeveloped areas of an economy.

8. **Transformation of Traditional Agricultural Society:** The transformation of traditional agricultural society into a modern industrial society, i.e., structural changes lead to enhancement of employment opportunities, higher labour productivity and the stock of capital, exploitation of the newly developed resources and improved technology. Mostly, LDCs have a very large primary sector and very small secondary and tertiary sectors. In such economies the structural changes involve the transfer of population from the primary sector to the secondary and then to tertiary sectors. Agriculture being the main occupation of the 70-80 percent population in the LDCs passes through several structural

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changes. The number of dependents on agriculture sector progressively reduce with the expansion of industrial or nonagricultural sector.

Similarly, the proportion of contribution of agriculture in the real national income also reduces gradually. But net output in agriculture sector progressively increases in absolute terms, as it is accompanied by a strong productivity movement, relating to the implementation of several programmes like land reforms, expansion of banks, improved agricultural techniques and other farm implements, availability of better marketing facilities, means of power and irrigation, and so on. In LDCs the agriculture and industry become complementary to each other. The progressively increasing productivity in agriculture enhances the per capita real income of the people, engaged in agriculture sector. This, in turn, expands rural demand for consumer goods and agricultural inputs which stimulates the expansion of industrial sector, and further, it also develops agriculture sector by providing improved farm techniques along with machines, fertilisers and other inputs. The scope for increasing agricultural productivity and incomes, in other words, is heavily dependent upon the structural transformation of the economy as it affects the growth of commercial demand for goods produced, the growth of alternative employment opportunities, and the increased quantity of purchased inputs available to the agricultural sector".

Non-Economic Factors

Both of the economic or noneconomic factors do play an important role in the process of economic growth. In this regard, socio-economic, cultural, psychological and political factors are also equally significant as are economic factors in economic development of the LDCs **Cairncross** rightly observes:

"Development is not just a matter of having plenty of money, nor is it purely an economic phenomenon. It embraces all aspects of social behaviour; the establishment of law and order; scrupulousness in business dealings, including dealings with the revenue authorities; relationships between the family, literacy, familiarity with mechanical gadgets and so on". We discuss here some of the essential noneconomic factors which determine the economic growth of an economy.

1. **Political Factors:** Political stability and strong administration are essential and helpful in modern economic growth. It is because of political stability and strong administration that the countries like the U.K. the U.S.A., Germany, France and Japan have reached the level of highest economic growth in the

world. But in most of the poor countries there is political instability and weak administration which have largely influenced their economic development programmes. It is, therefore, essential for their faster economic development to have a strong, efficient and incorrupt administration. In conclusion, we can say that a clean, just and strong administration can put an economy on the way to rapid economic development. Lewis rightly comments that "no country has made progress without positive stimulus from intelligent governments".

2. **Social and Psychological Factors:** Modern economic growth process has been largely influenced by social and psychological factors. Social factors include social attitudes, social values and social institutions which change with the expansion of education and transformation of culture from one society to the other. The Industrial Revolution of England and other Western European countries in the 18th century was largely influenced by the spirit of adventure and the expansion of education which led to new discoveries and inventions and consequently to the rise of the new entrepreneurs. Social attitudes, values and institutions changed. Joint family system was replaced by the new single family system which further led to the rapid economic development in these countries.

   But the society in LDCs has been badly enveloped and guided by traditional customs, outdated ideology, values, and obsolete attitudes which have not been conducive to their economic development. Thus, there is need to change or modify these social and psychological factors for the rapid economic development in these countries. But it is not an easy task, and moreover, any rapid change may bring discontentment and resistance in the society, with the result that it may adversely affect the economic growth in the economies.

   Only the selective social and psychological changes can lead to economic growth in LDCs. According to the UN Report on Economic Development of Underdeveloped Countries, it is hence impossible to speed up economic growth in these economies without painful adjustments.

   It, thus, advises to adopt an evolutionary change in social and cultural factors rather than revolutionary ones. **Myrdal** in his book **Asian Drama** also advocates the adoption of "modernisation values" or "modernisation ideals" for the rapid economic development of underdeveloped countries.

3. **Education:** It is now fairly recognised that education is the main vehicle of development. Greater progress has been achieved in those countries, where education is wide spread. J.K. Garlbraith in his book "Economic Development" has rightly stressed the role of education as an engine of economic growth.

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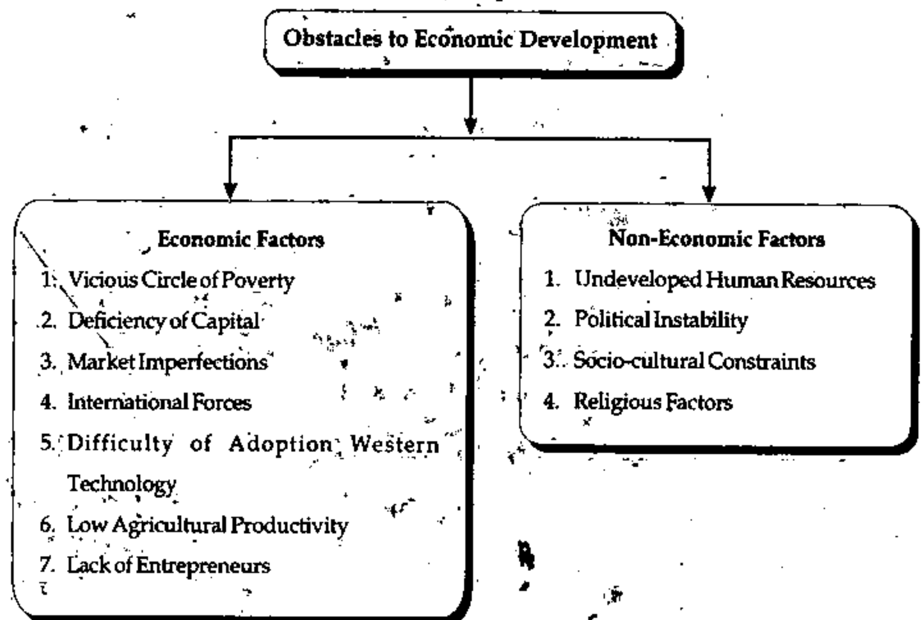
4. **Urbanisation:** Another noneconomic factor promoting development is the process of urbanisation. In poor agrarian economies, the structural change must begin with the change in the size of population in rural and urban sectors.
5. **Religious Factors:** Religion plays a great role in economic growth. It may give rise to a peculiar sense of self-satisfaction. For example, the Hindu religion encourages faith in fate and prevents people from working hard. They are educated to remain satisfied with their lot and to hate risk and enterprise. Then our religion gives a higher place to spirit than matter.

   In short economic growth is the result of concerted efforts of both economic and non economic factors. However, the mere presence of one or more or all of these factors may not ensure that the economy will be in a position to generate forces that bring about a fast economic growth. Some further factors may also be required that may work as a catalyst for growth. This function can well be performed by the state.

Obstacles to Economic Development

Broadly speaking, the features of an under developed economy create obstacles in the way of economic development, and hamper economic progress. These features emerge out of economic, social, political, religious and institutional factors. It would be wrong to conclude that only economic factors are responsible for poverty or economic backwardness of a country. Non-economic factors are equally responsible for the under development of an economy. The factors discouraging economic development may be classified into economic and noneconomic factors which are as under.



1.13 Summary

Indian economy is developing economy in which agriculture is the back bone of Indian economic. About 30 % of India's population are on the below poverty line. Mineral resources are not fully utilized. Majority of the people of India are leading a poverty line. Indian economy is having its following basic features as a developing economy such as low per capita income, population pressure on agriculture, poverty, less employment opportunity, increase in export etc.

Growth is a way of life. None of us wants to stay at the same level of standard of living. Each one of us puts best of his effort to grow economically and have a better standard of living. Economic Growth : is a narrower concept than economic development. Economic development is a normative concept i.e. it applies in the context of people's sense of morality (right and wrong, good and bad). The most accurate method of measuring development is the Human Development Index which takes into account the literacy rates & life expectancy which affect productivity and could lead to Economic Growth.

Economic Growth does not take into account the size of the informal economy. Development alleviates people from low standards of living into proper employment with suitable shelter. If economic growth is 1%, it will take approximately 72 years for the value of the economy to double. If the growth rate is 10% it will only take 7.2 years for the economy to double.

1.14 Keywords

- **FDI:** The net inflows of investment (inflow minus outflow) to acquire a lasting management interest in an enterprise operating in an economy other than that of the investor.
- **Financial Inclusion:** Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society.
- **Normative :** Describing or setting standards or rules of behavior.
- **Informal :** Related and friendly not following strict rules of how to behave.

1.15 Review Questions

1. Explain characteristics of the Indian Economy as a developing economy.
2. Discuss about features of Indian Economy as a mixed economy.

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3. Explain the structural changes in Indian Economy.
4. Discuss the Indian Economy and Inclusive growth.
5. What are difference between economic development and economic growth?
6. Explain the growth performance of the word economy.
7. Describe the process of economic growth.
8. What are the stages of growth?
9. Define growth also describe the measurement of growth.

1.16 Further Readings

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Economic Resources of India

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(Structure)

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2.1 Learning Objectives

After studying the chapter, students will be able to:

- Explain about the sources of economic growth;
- Describe about the factors of source of economic growth;
- Discuss the recent trends in capital formation in India;
- Differentiate between human and physical capital;
- Understand the concept of national income;
- Explain those productive activities that are not part of national income;

- Understand the unequal population growth in rural and urban areas in India;
- Explain the various factors of population growth in India;
- Understand transport as a propeller of economic growth;
- Understand the issue of unemployment in India.

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2.2 Introduction

Economic growth is the continuous improvement in the capacity to satisfy the demand for goods and services, resulting from increased production scale, and improved productivity (innovations in products and processes). Factors improving productivity are particularly important sources of growth for developed economies with mature industries, but facing increasing global competition and rapid technological progress. Consumption has made a strong contribution to the growth of UK demand in recent decades, but the negative impact of the global financial crisis on consumer expenditure will persist for some time. Business investment is likely to become an increasingly important driver of growth. The UK's net trade position is expected to improve. Specialised and knowledge-intensive service and manufacturing sectors are likely to contribute strongly to future growth, building on the UK's relative specialization in Finance, Business Services, Communications, and Computer and Information Services.

Capital formation refers to the increase in the stock of real capital in an economy during an accounting period. In other words, it is the creation of things that help us produce more. We commonly used the term in the study of macroeconomics. We 'form' capital when we use our savings for investment purposes – often investment in production. In other words, the formation of capital occurs when we invest in making things. In this unit, we will discuss the recent trends in capital formation and savings and investments in India.

National income consists of a collection of different types of goods and services of different types. This is the money value of all the final goods and services produced by a country in a given period of time. This is the aggregate of all those individuals' earned incomes who are residents of the country. However, from the macroeconomic point of view, individuals' earnings are included in the national income only if they earned during that time period, i.e., if they have engaged in the productive activity to earn that income. To be counted as income, the transfer of money should involve the exchange of the productive services.

Earlier, people used to earn their income without involving any transfer of money. For example, in the case of subsistence farming, income is earned without involving any money payment. In the primitive backward communities, productive activities are carried on without involving the use of money. In ancient times, goods were produced and consumed through the barter system. Their inclusion in the national income presents many formidable problems. The logic behind not including them in the national income is that they do not have their counterpart in the form of current economic activities that involve the production of goods and services in the economy.

Then there is the issue of personal income and disposable personal income. In order to include personal income in the national income, there are a slew of procedures like deduction from corporate profits, tax, employers' and employees' contributions to social insurance, etc.

Since there is a chain-relationship between the different aggregate income National Income and product concepts, after analysing the role of the gross national product (GNP), net national product (NNP), national income (NI) and other related macroeconomic concepts, it is easy to compute the value of one aggregate economic variable from that of the other. This unit carries an in-depth analysis about the various concepts and methods to explain what contribute to national income.

Like developed countries where two-thirds of people lives in the cities, urban population in India is increasing slowly but steadily due to migration from rural areas and industrialization. There are twelve big cities with more than 10 lakh population. Interestingly, at a given period, female migration is greater than male migration. Of course, challenges galore to analyse the impact of population growth. For effective planning of the country, population projections are essential. Both quantitative and qualitative analyses are essential to understand the growth trend of the country. Academicians, demographers and institutions like the United Nations, Central Statistical Organizations, Planning Commission, etc. initiated population projections.

Census was started to exactly know the population and is now done systematically once in a decade. The year 1951 was a landmark in the history of census operation in India as this was the first census in the free India. During the 20th century, India's population increased nearly 5 times from 23 crore to 100 crore, while during the same period world's population increased nearly 3 times from 200 crore to 600 crore. Several factors like early marriage, low literacy among.

Like all developing countries, despite economic planning and progress, the expected development and prosperity couldn't happen in India on account of the growing

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population. India's National Population Policy envisages a balanced population so that the country will develop the maximum and each individual of the country lives in a satisfactory socio-economic environment. It has set the target of achieving zero growth rate of population by 2045. Needless to say, the broadbased policy requires convincing and positive measures. It exhibits the government's concern for the rapid growth of population and its stabilization from the long-term perspective. At the same time, it lays emphasis on both the qualitative and quantitative aspects of population.

The sustained economic growth of a country verily depends on a firmly constructed and coordinated system of transport. The transport system in India comprises a number of distinct modes and services, notably railways, roads, road transport, national highways, airports, etc. Among all the functions of a well-knit transport system, it contributes to expand markets for goods and products that various industries need. It helps in increase in the demand for goods and large-scale production.

Indian Railways has been the pioneer of modern transport and has brought the greatest revolution in transport system that the country has. Although Railways has accelerated commercial and industrial development of various countries, in India, it has emerged as the principal means of transport. Roads and road transport system is one of the most important modes of transport. Of late, serious attempts are being to complete various projects under the national highways.

As the most modern and the quickest mode of transport, air transport has now turned into as an engine of growth. To meet the growing traffic, development of airports are being done on priority basis. Upgradation of various airports and construction of new terminals will improve the air navigation services. The unit aims at highlighting the role of India's transport system and emphasizes the need for infrastructure development in various modes of transport.

According to Mollie Orshansky, who developed the poverty measurements used by the U.S. government, 'to be poor is to be deprived of those goods and services and pleasures which others around us take for granted.' There are two types of poverty. One is income poverty and other is human poverty. Income poverty refers to lack of necessities of material well-being. Human poverty refers to denial of opportunity for living a tolerable life. The concept and content of poverty differs from country to country.

2.3 Sources of Economic Growth

There are different concepts of economic growth and ways of measuring it, but the core definition is in terms of growth in the long run productive capacity of the economy, typically measured by real growth in Gross Domestic Product GDP.

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Broader concepts of growth such as sustainable or balanced growth, or growth in measures of wellbeing are closer to welfare objectives but more complicated and harder to measure. Lets know the sources of economic growth.

Growth Accounting

Policy tends to focus on growth in output per capita, because it is more closely related to social welfare objectives. Growth in output per capita can be broken down into growth in the employment rate and in output per worker (a measure of productivity).

Drivers of Long Run Growth

There is a limit to how far the employment rate can be improved in the long term in developed countries, so long term growth is driven primarily by productivity. ("*Productivity isn't everything, but in the long run it is almost everything*." Paul Krugman). Over the longer term, growth will be determined primarily by the factors which determine productivity, and secondly those which improve labour participation. The drivers of productivity growth are factors which either improve the quality of outputs, or the efficiency with which inputs (such as capital, labour and materials) are transformed into outputs. The contribution of some of these factors to output growth can be captured by appropriate input measures, with everything else (e.g. unmeasured inputs and technological progress) allocated to a residual called Total Factor Productivity (TFP):

Direct Inputs to Production

The main production inputs are capital, labour, management services and materials. In the traditional Solow neoclassical growth model, a one-off increase in inputs to increase the scale of production only has an impact on per capita output growth in the short run, while technological progress (captured in TFP) makes a persistent contribution. However, in later endogenous growth models, investment (particularly in innovation) drives technological progress, so has an impact on growth in the long as well as short term.

Ancillary Firm Activities

Firms allocate resources to a range of activities (such as innovation, marketing, and specialisation) which do not form direct inputs into the production process, but ultimately affect the quality of outputs or the efficiency of input use. Innovation by firms exploiting scientific advances creates the technological progress which is the main driver of growth in the long run.

Specialisation in products and processes (often involving greater trade) is an important route to increased productivity.

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The Business Environment

There are a range of factors in the business environment (such as infrastructure, the efficiency of markets, market incentives, taxation and regulation) which affect the productivity of firms and the efficiency of the economy as a whole. Investment in infrastructure affects the costs to firms of accessing resources and markets, and market conditions affect firm incentives to invest, be enterprising and innovate.

2.4 Factors of Source of Economic Growth

Capital Formation: Capital is the foremost requirement for enhancing the productive capacity of the economy. The greater is the capital formation, greater will be the productivity of all other factors of production, and hence greater will be the total output of goods and services in the economy. Empirical evidence also suggests that there is a strong positive correlation between the rate of capital formation and the rate of economic growth. Most of the developed countries of the world have high rates of capital formation.

Capital-Output Ratio: Another important factor determining the rate of economic growth is capital output ratio. It refers to the number of units of capital that are required in order to produce one unit of output.

There is a tendency that as an economy grows the capital output ratio becomes more and more favourable. Besides, capital output ratio also varies sector to sector and industry to industry.

To achieve high rate of economic growth of GDP, an economy has to ensure :

(a) Increasing in the rate of capital formation;

(b) Generating forces that increase the productivity of capital

Capital output ratio depends upon:

(a) Efficiency in the use of capital;

(b) Quality of managerial and organizational skill;

(c) Marginal efficiency of capital.

Technological Progress: Technology can help to increase the productivity of existing resources. With improvement tin technology, same resources become more productive. For example, Computer technology has increased the output of all kinds of offices many times. DMRC is another wonderful example for it. For technological advancement, we need to have quality of education and well equipped research and development.

2.5 Capital Formation Trends in India

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India's gross domestic product grew an average 9% annually for some years before the global financial crisis of 2008. Between 2004 and 2008, business confidence acquired a swagger and investments increased at a rapid pace. India was in an enviable position with problems of plenty – capital was rushing in and high GDP growth was taken for granted. Planners wanted to push growth rate beyond 10%, citing positive demographics and investments that India was attracting. Indeed, India did find a sweet spot between 2004 and 2008, with investments driving growth. Post-crisis, the world has changed. Developed economies have not been able to shake off the effects of the economic crisis. India too has experienced a slowdown in capital flows, such as foreign direct investment, and savings and investment rates have also faltered. The country's growth rate slowed and touched a low of 6.8% before recovering to 8.5%.

As soon as growth recovered, euphoria was back. So was bluster about decoupling and how the Indian economy was robust enough to grow despite adverse global conditions. With inflation soaring and growth faltering, questions are being asked about the brief and evanescent growth witnessed in Financial Year 2010 and Financial Year 2011. Comparisons are also being made between nature of economic growth during 2004-2008 and the growth rate of the past two years that was undoubtedly driven by consumption and spurred mainly by stimulus programmes. Investment seems to be slowing down and that seems to be affecting overall growth rate.

In fact, investments or capital formation is perhaps one of the keys to realising India's dream of high economic growth. At the same time, stagnant capital productivity levels – measured through incremental capital output ratio – have put the focus back on the need to increase the investment rate to achieve higher economic growth, at least until capital efficiency catches up. Simultaneously, the spotlights have been trained on the stagnant savings rate as well. We feel that given the depth and severity of the global economic crisis, it will be a while before the volume of capital flows into India goes back to the 2004-08 levels. If investment is to power economic growth, it will then need concerted efforts to step up the savings rate.

Human and Physical

Physical Capital

Physical capital refers to the assets which themselves have been manufactured and are used for production of other goods and services. In a broader term, physical capital refers to all non-human assets created by humans and used in the production and manufacturing

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process. Examples of physical capital include machinery and equipment used directly in the production process. Buildings are also classified as physical capital, as long as they are used in business operations. Manufacturing plants that contain all production equipment and facilities, warehouses that contain finished or work in progress products, and even buildings used for administration, accounting, sales, etc. are also referred to as physical capital. Vehicles are also considered physical capital, whether they are used for internal purposes, or are used to transport goods to their final retail destination; as long as the vehicle is used in business operations it becomes physical capital.

Human Capital

Human capital refers to the skills, training, experience, education, knowledge, know-how, and competencies contributed by humans to a business. In other words, human capital can be referred to as the value that is added onto a company by an employee, which can be measured by the employee's skills and competencies. Human capital is an important factor of production, and employing individuals with the right education, experience, skills and training can improve efficiency, productivity, and profitability.

Companies can invest in their human capital by offering training and education facilities to its workers. Training and developing employees can help them develop a broader set of skills and abilities and reduce cost of hiring additional employees with necessary skills. One thing that must be kept in mind is that humans are not equal to one another and that human capital can be developed in many ways to obtain the highest economic value to the firm.

Capital Formation: Savings and Investment

Capital formation is also known as investment in national accounting. Terms like capital formation, or additions to physical stock, or investment are synonymous in economic parlance. Capital formation forms the backbone of an economy. India has steadily improved its capital stock since independence. We try to explain the theory and trends of investments in India.

- **Gross Capital Formation Steadily Improved:** Gross India Gross Fixed Capital Formation was reported at 268.341 USD bn in Mar 2022. This records an increase from the previous number of 219.921 USD bn for Dec 2021.This improved in the following decades with the Five-Year Plans constantly focusing on improving physical stock.
- **Measures of Capital Formation:** Gross capital formation, gross fixed capital formation and gross domestic capital formation are few other definitions to study capital formation. In India, the Central Statistical Organisation provides data on capital formation by institutions and sectors.

- **Savings:** Savings provide necessary means for investment in the economy. Savings rate has improved post-liberalisation to 36% of GDP, which points to rise in economic activity and national income in India.India Gross Savings Rate was measured at 28.2% in Mar 2021, compared with 28.2% in the previous year. India Gross Savings Rate is updated yearly, with data available from Mar 1951 to Mar 2021, and an average rate of 28.2%.
- **Contribution to Gross Capital Formation:** Currently, private sector leads in investments in the economy at 37% of total investments. Public investments are around 26% and household investments account for 32%. Public share in investments has fallen over time, which indicates the government's inability to stimulate investments in the country. The way forward is to boost investments through private-public partnerships that can help India solve its infrastructure problems.
- **Private Investments:** With liberalisation of the economy and a favourable business environment, private sector now leads in investments in the economy. Private investments are largely funded by household savings. Over the years, private savings have also improved, which have further aided private sector capital formation. The private sector, being the biggest contributor to gross capital formation, now has a crucial role to play in leading India's economic growth.
- **Public Investments:** Public investments have declined as government lacks enough resources to boost investment in a big way. Also, the government's propensity for dissavings, because of poor expenditure management, has left it with fewer resources to fund investments in the country. As government lacks enough muscle to raise investments further, the private sector and foreign fund inflows have become critical for increasing investment levels in the country.
- **Household Investments:** Household investments account for 32% of total investments. Household includes individuals, non-corporate business bodies, private and charitable institutions such as educational and religious organisations. Therefore, investments by these bodies in terms of physical capacity creations such as on land, buildings, factories, etc, are termed as household capital formation. Household investments are funded by rising household savings. Household savings accounts for nearly 70% of total savings and are the chief source of investments for both private and public investments.

Key Aspects

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- **Measurement:** Investment activity in an economy refers to addition to physical capital stock. It is measured by gross capital formation. In India, the Central Statistical Organisation provides data on different components of gross capital formation, broadly defined as gross fixed capital formation (GFCF) plus change in stocks. Gross fixed capital formation provides a picture of gross value of goods added to fixed domestic capital stock during a year. GFCF includes plant, machinery, equipment and improvements to land. Change in stocks provides value of inventory and work in progress.
- **Transition since Independence:** Capital formation in the 1950s was low, but it improved in the following decades. Gross capital formation (% of GDP) in India was reported at 31.2 % in 2021. Although all economic growth cannot be attributed to investments, importance of capital formation remains paramount in economic development.
- **Key to Long-Term Growth:** Importance has been laid on capital formation in economic development as it can lead to sustainable long-term growth. The data reached an all-time high of 268.341 USD bn in Mar 2022 and a record low of 20.971 USD bn in Jun 1996. it still remains below rates achieved in high-growth economies, such as China. Investment levels in China have risen to a high of 50% of GDP, which also underlines the high economic growth it has been able to sustain for the past 25 years.
- **Constraints to Investments:** Another aspect of capital formation that needs mention is constraints to finance it. Investments are typically funded from domestic savings (although foreign capital flows also contribute towards growth in investments). So, inadequate growth in savings rate can be a constraint for investments. Savings rate in China has increased to around 50% of GDP, which makes it possible for the Chinese economy to sustain high levels of investment. China also attracts huge foreign direct investment every year.
- **Only Investment Not Enough:** It is an oversimplification to say high investments can result in long-term high economic growth. There are many economies that initially showed a rapid rise in economic growth through improvement in capital formation, but ultimately slowed down. Examples of Soviet Union in the 1960s and the East Asian experience in the 1980s and 1990s provide evidence that high rates of investments aren't the only way forward. Investments have to be followed with improvement in productivity.

Excess of capital without productivity results in slower growth and also lower returns on investments. Simply put, mobilisation of labour and capital are not sufficient for sustainable high long-term growth. Incremental capital output ratio (ICOR), a critical ratio that measures the amount of incremental capital needed to produce one incremental level of output, is a key measure of capital productivity. ICOR levels in India have remained unchanged at 4.5 in recent years. A lower ICOR is critical to achieve a high rate of growth with a given level of capital formation.

- **Perspectives for India:** Many studies on investment behaviour in India have pointed out that economic growth, rising incomes and economic liberalisation have led to a rise in private investments in India. Public sector investments have lost share in recent years, which is manifest in infrastructure deficit and other bottlenecks to economic development. Private sector investments hold the key for economic growth and should be encouraged with conducive business and policy environment.

2.6 Concept, Methods and Recent Trends

The concept of national income is very important in macroeconomic accounting and theory. While for an individual, his income during any given period of time largely consists of the earnings which he receives from his participation in the productive activities carried on in the economy, national income is the aggregate of all those individuals' earned incomes who are residents of the country. The nationals of a country earn their incomes by offering either their labour services or the use of their land, capital and enterprise in the productive processes.

The definition of national income links income with production or economic activity in the economy. Thus, from the national point of view what is important is the income earned by the nationals of a country by undertaking the productive services. In other words, corresponding to the factor incomes there is the counterpart production of goods and services which represents the manifold economic activities undertaken on the part of input owners or factors of production. Thus, while for an individual his entire money receipts during any given period of time are his money income, from the macroeconomic point of view, such money receipts will be included in the national income only if these have been earned by the individual during that time period, i.e., if the individual has engaged himself in the productive activity to earn that income. For example, a man may have received income in the form of gifts or transfer receipts from other individuals, business firms and government. Although such money receipts

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are rightly regarded as his income by an individual, these will not form a part of the national income because there has been no corresponding economic activity reflected in the production of goods and services against such money receipts in the economy. Here, what one man has gained by way of transfer receipts, another man has lost by way of transfer payments.

Unless the transfer of money also involves the exchange of the productive services, it will not be counted as income from the macroeconomic point of view. In fact, income may be earned without involving any transfer of money. For example, in the case of subsistence farming, income is earned without involving any money payment. Similarly, where farm labour is paid in kind for its services rendered on the farm, income is earned without involving any money transfer. In the primitive backward communities, productive activities are carried on without involving the use of money. In ancient times, goods were produced and consumed through the clumsy barter system. Households possess different kinds of property the services of which accrue to their owners. Such services should, therefore, be included in the national income although their inclusion in the national income presents many formidable problems. In deciding whether or not individual or personal income should be included in the national income or product, the appropriate question to be answered is: Is the income received by an individual the payment for some work done by him? If the answer is 'yes', it should be included in the national income, otherwise not. In other words, in order to be included in the national income, a money receipt or payment should involve a quid pro quo in the form rendering the productive services on the part of the person receiving the money payment.

National income is, therefore, the aggregate of individuals' incomes excluding transfer receipts or payments. The logic behind not including the transfer payments in the national income and product accounts is that these receipts do not have their counterpart in the form of current economic activities embodying the production of goods and services in the economy although these are part of the income of the personal or household sector and have to be added in deriving the personal income. Also excluded from the national income are the capital gains made (or losses suffered) by the individual or institutional asset-holders because such capital gains (or losses) do not represent any productive activity in the economy.

Apart from excluding the transfer receipts and capital gains from national income, any reasonable definition of national income must provide for the depreciation or capital consumption allowance considered necessary to maintain the economy's total capital stock intact. If a part of an individual's capital assets is consumed during the process of income earning, his total earnings are not his net earnings because a portion of his

total earnings must be set aside to provide for the replacement of the depreciated capital assets failing which the individual's earning capacity in the future will diminish. In this respect, what is true of an individual is also true for the economy as a whole. Thus, the definition of national income should allow for capital consumption allowance. Since national income is simply the aggregate of factor earnings, it excludes capital consumption allowance, government, business and individual transfer payments which are receipts in the hands of factor owners and indirect taxes (net of government subsidies, if any) from the money value of the final goods and services calculated at the market price.

The rationale behind excluding these different items from the national income is that any component of the market price which does not represent the earnings of the factors of production generated in the production processes should not be included in the national income. It is, therefore, obvious that business transfer payments, indirect taxes and capital depreciation which must be included in the total cost of production for calculating the market prices of goods and services are not factor cost of production (factor income) and do not, therefore, represent a part of the national income. Consequently, these items must be deducted from the market value of the final goods and services produced in the economy during any given time period in order to arrive at the national income of that period.

In brief, national income is the aggregate of the (i) wages and salaries, including supplements thereto (without deducting taxes and social security contributions); (ii) net income received from rents and royalties; (iii) income received from interest; and (iv) profits, whether earned by the corporate or non-corporate private business sector before deducting the income-tax.

National income can also be calculated according to the sector of origin of income in the economy. Wages, salaries and supplements thereto are paid by business firms, by governments, by non-profit private institutions, by households, by foreign residents, firms and organizations. Each one of these sectors may be further subdivided. For example, the government sector could be divided into Central government, state governments and local self-government bodies, such as the municipal and district boards, town area committees, cantonment boards, etc.

Income and Disposable Personal Income

Since both these concepts are related to national income, it is convenient to explain these here. Personal income may be defined as the current income of persons or households derived from all sources. Personal income is not, however, a correct measure of the current economic activities which are represented by the production of goods and

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services in the economy since it includes several items which are not related to the current production of goods and services and excludes certain items which are related to the current production of goods and services in the economy. In other words, it includes both the earnings from the productive services (economic activities) and the receipts against which no productive services have been rendered. Personal income is, therefore, obtained from national income by substracting from the national income that part of it which is earned but is not received by the persons and by adding to it those personal receipts which are derived from sources which are not included in the national income. Thus, in order to derive personal income from the national income, we should deduct from it the undistributed corporate profits, tax, employers' and employees' contributions to social insurance and add to it the government and business transfer payments, net interest paid by the government, interest paid by consumers and the dividends distributed by the corporate business sector to the shareholders. Disposable personal income is derived from personal income by deducting from personal income direct personal taxes, such as personal income tax. The residue left is the disposable personal income because it represents the total amount of income which is available for disposal by the person concerned. The difference between the disposable personal income and personal saving is personal outlays which may be incurred in the form of consumption expenditure and interest paid by the consumers.

Concept of National Product

In dealing with the concept of national product, we should distinguish between its gross and net variants. Moreover, it must also be explained that there is a distinction between national product and domestic product. National product, like national income, is a flow concept. It can be defined as the total output of final goods and services produced by the nationals or residents of a country acting in their roles as factors of production during any given period of time, say in one year. Since the total number and the amount of goods and services that an economy produces during the year is enormous, seemingly like 'Pandora's box,' it is customary to define the national product in terms of the total money value of the final goods and services produced by the residents of a country. National product may, therefore, be defined as the total money value of all the final goods and services produced by the residents of a country during any given period of time, usually one year. To avoid the problem of double counting, national product may either be evaluated by multiplying the final goods and services by their market prices or by adding the values imparted to the intermediate goods and services by each stage or process of production.

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The important thing to remember in connection with the concept of national product is that it includes all those goods and services which are the result of the economic activities (productive services) of the residents or nationals of a country. It, therefore, includes even those goods and services which are produced by the residents of a country outside the geographical boundaries of that country, i.e., it includes the value of the productive services rendered by the nationals of a country outside the country in foreign countries. At the same time, it excludes the share of the foreigners' services in the total product raised within the economy. For example, the profit and interest income earned by the Birla brothers from their paper mill established in Nigeria will be included in India's national product while that portion of the total product raised in India which represents (in the form of tangible goods and services) the productive activities of the Germans, Americans and other foreign nationals will be excluded from India's national product. It is, therefore, obvious that the concept of national product is broader than the concept of domestic product which focusses attention only on the total output produced during any given time period (without bothering about who produced or raised it) within the geographical or territorial limits of the economy.

In order to derive the national product from the domestic product, we must deduct from the domestic product the value of that part of the domestic product which represents the productive activities of the foreigners and add to it the value of the product raised by the nationals of the country outside the geographical limits of the economy, i.e., abroad. However, both the national product and domestic product are flow concepts. The relationship between the gross and net national product and the gross and net domestic product can be shown as below:

$$\text{Gross National Product} \equiv \text{Gross Domestic Product} + \text{Exports} - \text{Imports}$$

$$\text{GNP} \equiv \text{GDP} + (X - M)\text{; and}$$

$$\text{Net National Product} \equiv \text{Net Domestic Product} + \text{Exports} - \text{Imports}$$

$$\text{NNP} \equiv \text{NDP} + (X - M)$$

Only in the case of a closed economy—having no economic transactions with the outside world so that both the exports and the imports of the economy are zero—will the national product be equal to the domestic product.

National product is gross or net. Gross national product (GNP) is the total output of the final goods and services produced during any given period of time by the residents of a country. The total output of final goods and services consists of the consumption and capital goods. However, the entire total output of new capital goods does not represent

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net increase in the capital stock (production potential) of the economy. A part of the total output or production of new capital goods is consumed in replacing the economy's existing capital stock consumed during the process of production of the final goods and services. Consequently, only a part of the total output of new capital goods represents a net increase in the economy's capital stock, i.e., net investment or capital formation. Net national product (NNP) is, therefore, the total output of consumer goods plus the net increase in the economy's total capital stock–production of new capital goods in excess of the replacement of the depreciated capital goods during any given period of time. In other words, the net national product (NNP) is equal to the output of consumer and government goods plus net investment in the economy during any given period of time.

The difference between the gross national product and the net national product follows from the exclusion and inclusion of capital depreciation or replacement investment. Net national product is the residual gross national product after capital consumption allowance (CCA) is allowed. In other words, while the gross national product is the total money value of the total final goods and services produced by the residents of a country during any given time period, which is usually taken as one year, before allowing for the replacement of the economy's capital equipment worn out in the process of production, the net national product is the total money value of all these final goods and services after providing for the maintenance of economy's total capital stock.

Net national product (NNP) can be derived by deducting from the gross national product (GNP) capital consumption allowance (CCA). Statistically, the estimation of the gross national product is more accurate than the estimation of the net national product because depreciation of capital, i.e., the physical wear and tear and obsolescence of capital equipment is extremely difficult to estimate with perfect accuracy. Although the national product statisticians have made different estimates regarding the rate of depreciation of the economy's capital stock, nevertheless the degree of accuracy of these estimates is difficult to assess.

Importance of Gross National Product (GNP)

Gross national product (GNP) estimates enable the economists to analyse the overall performance of an economy. The usefulness of the GNP as a tool for analysing the aggregate performance of an economy both over the short period and the long period can be illustrated by the means of two examples. First, with the help of the GNP estimates it is possible to measure the performance of an economy over time by comparing the GNP of one time period with that of the other. Thus, the growth of the GNP over time tells us that the economic performance of the nation has been steadily improving over

time. For example, if it is found that the total money value (at constant prices) of all the final goods and services produced in India during 2021 is 25 per cent higher than it was in 2020, it can be easily deduced that the real gross national product in 2021 has recorded an increase of 25 per cent compared with the gross national product in 2020. On the other hand, if the prices in 2021 were 25 per cent higher compared with those in 2020, the GNP in real terms will show no change because the increase of 25 per cent in the money value of the GNP in 2021 was entirely due to the price rise.

Estimates of the gross national product can also be used for analysing changes in the total purchases which are needed to ensure the maximum level of aggregate output in the economy. For example, consider the Indian economy in which the final goods and services valued at 2,000 crore have been sold during 2021. A survey is made of country's total labour force and capital resources which shows that only 80 per cent of the country's total available labour force and capital resources were employed to produce these goods and services. An additional output of the final goods and services worth 500 crore could have been produced had the labour and capital been fully employed in the economy. This estimation furnishes the basis for determining one of the requirements for obtaining the maximum output of goods and services in the economy. Either the total money purchases should be 500 crore higher (prices remaining unchanged) in order to induce the entrepreneurs to produce the additional potential output of goods and services for which the necessary inputs are available in the economy or the general price level should fall by 20 per cent to enable the full employment output to be sold out with National Income the existing total money supply in the economy. It is, therefore, obvious that the GNP estimates furnish us with an overall picture of the level and the rate of change of the aggregate economic activity in the economy. These estimates tell us about the goods and services which are being produced with the economy's total resources and the uses to which the total output of goods and services is being put.

National product or income estimates also serve as significant indicators of the economic prosperity of a nation. Ceteris paribus, a higher national income means the availability of more goods and services in larger quantities which with a given population would mean higher per capita income. National income estimates by sector-of-origin furnish us with the important clues about the structure of the economy and the relative importance of different sectors in the economy based upon the contribution of each sector to the national product. Their comparison over different time periods shows the structural changes that have taken place in the economy through time.

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It is on the basis of the origin of national product in the different sectors of an economy that some economies are called agricultural economies while some others are labelled as the industrial economies or the exports-oriented economies. Estimates of the national income and product also furnish us meaningful information about the functional distribution of the national income and product which is very important for the taking of correct policy decisions bearing upon the community's economic welfare.

Gross National Product (GNP), Net National Product (NNP), National Income (NI) and other Related Macroeconomic Concepts

Having discussed the meaning and importance of the gross national product (GNP), net national product (NNP), national income (NI) and other related macroeconomic concepts, it is easy to derive or compute the value of one aggregate economic variable from that of the other since there is a chain-relationship between the different aggregate income and product concepts. This relationship between the different related macroeconomic concepts can be explained in the following table.

Table : Relationship Between Different Related Macroeconomic Concepts

(Rupees crore)

	Gross National Product (GNP) Measured at the Market Price	500
Minus	Capital Consumption Allowance (CCA)	50
Equals	Net National Product (NNP) Measured at the Market Price	450
Minus	Indirect Business Taxes	50
	Business Transfer Payments	10
	Current Surpluses of Government Enterprises	15
Plus	Government Subsidies	25
Equals	National Income (NI)	400
Minus	Undistributed Profits	30
	Profits Tax	5
	Employers' Contributions for Social Insurance	5
	Employees' Contributions for Social Insurance	5
Plus	Government Transfer Payments to Persons	15
	Business Transfer Payments	8
	Net Interest paid by Government	5
	Interest Paid by Consumers	2
Equals	Personal Income (PI)	385
Minus	Personal Taxes (Tp)	35

Equals	Disposable Personal Income (DPI)	350
Minus	Personal Saving (Sp)	50
Equals	Personal Outlays (PO)	300

$$\text{NNP} = \text{GNP} - \text{CCA}$$

$$\text{National Income (NI)} = \text{GNP} - \left[\text{CCA} + \text{Indirect Business Taxes} + \text{Business Transfer Payments} + \text{Current Surpluses of Government Enterprises} - \text{Government Subsidies}\right]$$

$$\text{Personal Income (PI)} = \text{National Income (NI)} - \left[\text{Undistributed Profits} + \text{Profits Tax} + \text{Employers' Contributions for Social Security Insurance} + \text{Employees' Contributions for Social Security Insurance} - \text{Government Transfer Payments} - \text{Business Transfer Payments} - \text{Net Interest Paid by Government} - \text{Interest Paid by Consumers}\right]$$

$$\text{Disposable Personal Income (DPI)} = \text{Personal Income (PI)} - \text{Personal Taxes } (T_p)$$

$$\text{Personal Outlays (PO)} = \text{Disposable Personal Income (DPI)} - \text{Personal Saving } (S_p)$$

The most important relationship between the national product and income concepts is the relationship between the three macroeconomic variables of the gross national product (GNP), net national product (NNP) and national income (NI).

Next in importance to the concepts of the GNP; NNP and national income (NI) is the concept of personal income which is the current income of persons or households derived from all sources. Unlike the three measures of national product (GNP, NNP and NI), personal income is not a correct measure of the national product because it includes certain items which do not represent economic activities and excludes certain other items which represent economic activities on the part of persons. In other words, various 'transfer payments' are included in the personal income while the deductions made from the national income on account of profits tax, undistributed corporate profits, social security contributions, etc., which represent persons' economic activities, are excluded from personal income.

Personal income is, therefore, derived by deducting from the national income that part of it which is not paid to persons and by adding to that part of the national income which persons receive from those sources which do not form part of the national income.

A significant fact brought out from these relationships is that the estimates of net national product calculated at the unit factor cost of production and those of the national

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income are identical. In other words, net national product calculated at the unit factor cost of production and national income are identical macroeconomic concepts. From this, it also follows as a corollary that the gross national product equals the national income plus capital stock's depreciation in a simple economy where the market price equals the factor cost of production per unit of output.

Expressed differently, in such a simple economy—in which the government neither levies indirect taxes nor gives subsidies to business firms and also does not run public enterprises so that there is no problem of the current surpluses of government enterprises—the market price of final goods and services will not be different from the unit factor cost of production of such goods and services. Consequently, the net national product multiplied by the market price index will be equal to the sum total of the factor incomes earned in the processes of production. Furthermore, in such a simple economy the total expenditure incurred on the purchase of the net national product will also be equal to the national income. For this simplified economy, the fundamental income-product identity can be expressed as follows:

National Income	≡	Net National Product Net	≡	Expenditure Incurred on National Product

From the above identity relationship is derived the following identity relationship.

National Income	+ Capital Consumption Allowance	≡ Gross National Product Gross	≡ Expenditure Incurred on National Product

National Income and Product in a Simple Market Economy

To understand the relationship between national income and product in the real world economy, it might be fruitful to consider this relationship in a simple free market enterprise hypothetical economy with no government. Since government is absent, there is no problem of government outlays, taxes and of social insurance contributions. There are also no subsidies given by the government to private business firms in this economy. The total production in the economy takes place in the business sector consisting of the proprietorship firms so that the net income of a firm is not different from the personal income of its owner. In other words, there is no corporate business sector in this economy. We also assume that this simple economy is a closed economy having no economic transactions with the outside world. Furthermore, the inventories of finished goods and raw material are either absent or remain unchanged, i.e., the entire total production of goods and services which takes place in the business sector per time period is purchased by the consumers (households) and entrepreneurs in the economy.

Since the entire production takes place in the business sector, the entire national income originates in this sector. National income is composed of wages, salaries and supplements thereto; interest, rent and royalties paid to capital and land owners and profits of the entrepreneurs. All these incomes are payment flows taking place from the business sector to the factor owners. In our assumed simple economy, like the national income, the gross national product also originates entirely in the business sector. It is composed of the total money value of the final goods and services consisting of the total production of consumer and capital goods. Since we have assumed no change in business inventories, the total production (output) of the consumer and capital goods in the economy during any given time period equals their sales during that period. The identity between the total production and total sales also enables us to view the national product as being equal to the total expenditure incurred on the purchase of national product. In terms of the total expenditure, the gross national product is composed of the total expenditure incurred by the consumers on the purchase of consumer goods and services and the total expenditure incurred by the entrepreneurs on the purchase of new capital goods.

The purchases of goods and services made by the consumers from the business firms are made from incomes earned by them as factor owners while working for the business firms. The flow of the total money spending from the household sector to the business sector constitutes a return flow comparable to the flow of the factor incomes from the business sector to the household sector. When these two money flows are identical in magnitude, i.e., when the total consumer spending equals the total consumer income, saving will be zero. If the aggregate spending exceeds the aggregate income, consumers will dis-save while if the aggregate spending flow is less than the aggregate income, consumers will save. The personal saving represents the leakage out of the aggregate income-expenditure flow stream.

The flow of aggregate outlay on the new capital goods is on a different footing. Funds for spending on capital goods come either from the accumulated past savings of the entrepreneurs or from savings, past or current, of others which are borrowed by the entrepreneurs or from the funds made available by banks out of the created new money. Whatever may be the source of supply of such investible funds, it is significant to realize that this spending flow is added to the aggregate flow of consumer spending to constitute the aggregate spending flow in the economy shown on the left-hand side of the diagram.

The flow from the business sector to individuals (households) is the national income while the return flow from the individuals (households) to business sector

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is the consumer spending flow. The flow of total consumer spending will be smaller compared with the flow of national income to the extent of personal saving. To get at the aggregate flow of spending in the economy, we should add to the flow of aggregate consumer spending the total flow of investment spending made by the business sector. The composite consumption and investment (gross) spending flow represents the gross national product (GNP).

In our hypothetical simple market economy, the flow of national income taking place from the business sector to individuals and the flow of gross national product (gross spending on consumption and investment including the replacement investment) will differ from one another by the size of capital consumption allowance.

Algebraically, these relationships can be summarized as follows.

$$GNP \equiv C + GI \quad \text{...(2.1)}$$

$$NI \equiv GNP - D \quad \text{...(2.2)}$$

$$NI \equiv C + S \quad \text{...(2.3)}$$

By substituting equation (2.3) into equation (2.2) and after rearranging, we get

$$GNP \equiv C + S + D \quad \text{...(2.4)}$$

By comparing equations (2.4) and (2.1), we get

$$GNP \equiv C + S + D \equiv C + GI \quad \text{...(2.5)}$$

$$Q \equiv S + D \; (S + D = \text{gross saving}) \quad \text{...(2.6)}$$

By substituting equation (2.1) into equation (2.2), we get

$$NI \equiv C + GI - D \quad \text{...(2.7)}$$

or $$Y \equiv C + I \quad \text{...(2.8)}$$

where $$I \equiv GI - D$$

By comparing equations (2.3) and (2.8), we get

$$NI \equiv C + S = C + I$$

or $$C + S \equiv C + I$$

therefore, $$S \equiv I$$

In the above equations:

GNP denotes gross national product;

C denotes aggregate consumer spending;

NI denotes national income;

GI denotes gross investment;

I denotes net investment;

S denotes aggregate personal saving; and

D denotes depreciation or capital consumption allowance.

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To bring the above hypothetical simple market economy nearer to the real world economy, government purchases, imports, exports and change in inventories will have to be added to the aggregate expenditure and income flows in the diagram. As result of these added flows, although the diagram will become complicated, it will not, however, change the fundamental shape of the diagram. Further, as a result of the inclusion of the corporate form of business enterprises in the business sector, the income arising in the business sector will be channelled out into individual and corporate incomes. It will, however, not affect the analysis in any fundamental manner.

Although a real world economy is much more complex than the simple market economy pictured here, it is nevertheless useful in pure economic theory to assume an economy with no government and no corporate business sector. Such an economy has simple accounts and the net national product, national income and disposable income are all identical. But when the theoretical generalizations have to be empirically examined, the inclusion of the government and the corporate form of business enterprises in the framework of the economy becomes essential. Consequently, the social accounts become complicated.

Recent Trends

The Second Advance estimates of national income for the year 2021-22 were in 2022. The salient features of these estimates are detailed below:

Estimates at Current Prices

1. Gross Domestic Product

- Gross Domestic Product (GDP) at Constant (2011-12) Prices in the year 2021-22 is estimated to attain a level of ₹ 147.36 lakh crore, as against the First Revised Estimate of ₹ 135.58 lakh crore for the year 2020-21, released on 31.01.2022. The growth in GDP during 2021-22 is estimated at 8.7 percent as compared to a contraction of 6.6 percent in 2020-21.
- The sectors which registered growth rate of over 9.0 percent and above at current prices are 'agriculture', 'manufacturing', 'trade, hotels, transport, communication and services related to broadcasting', 'financial, real estate

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and professional services', and 'public administration, defence and other services'.

The following table shows the latest trend in GDP growth in the country.

At Current Prices(In ₹crore)			(At Constant Prices (In ₹ Crore)		
Year	GDP(in crores)	GDP growth rates (%)	Year	GDP	GDP growth rates (%)
2021-2022	3,238,020	20.13	2021-2022	5,122,877	31.73
2020-2021	13,512,740	-7.25	2020-2021	19,745,670	-2.97
2019-2020	14,569,268	4.04	2019-2020	20,351,013	7.75
2018-2019	14,003,316	6.53	2018-2019	18,886,957	10.51
2017-2018	13,144,582	6.80	2017-2018	17,090,042	11.03

2. **National Income**
   - In financial year 2022, the gross national income at current prices in India was estimated to amount over 230 trillion Indian rupees, a significant increase from the previous year. It was the first time during the last decade, that the gross national income decreased in fiscal year 2021.
3. **Per Capita Net National Income**
   - The per capita income based on Net National Income (NNI) at constant price grew by 7.5 per cent in FY22 over the previous year 2021. At current prices, the per capita income rose by 18.3 per cent to ₹ 1.5 lakh during in 2021-22 fiscal.

2.7 Population Growth: An Overview

Like many other third world countries, the urban population of the country is increasing very slowly. In 2021, urban population for India was 35.4 %. Over the last 50 years, urban population of India grew substantially from 20.3 to 35.4 % rising at an increasing annual rate that reached a maximum of 1.64% in 1974 and then decreased to 1.34% in 2021. Rural population (% of total population) in India was reported at 64.61 % in 2021.

Table : Rural Urban Population (2021)

Area	Percentage of Population
Rural	64.61%
Urban	35.4%

In developed countries, at the most, two-thirds of the population lives in the cities. In the last decade India has undergone rapid urbanisation; its urban population grew to

217.2 million by 2000. The concept of an urban area was not defined properly in India till 1960. In 1960, India adopted a strict definition for the concept. Migration from rural areas to urban areas is increasing every year. In earlier days the maximum migration was towards Tripura, followed by Delhi. Lower migration was observed in the states of Rajasthan, Madhya Pradesh, Bihar and Uttar Pradesh. The high rate of migration in Assam is due to industrialisation. In India, female migration is greater than male migration because after marriage women migrate to their husband's place.

Today the trend of migration has changed a lot. Chennai has the highest percentage of migratory population. Urban population is increasing day-by-day in India. Earlier urbanisation was due to the World Wars whereas now the urbanisation is mainly due to industrialisation.

After independence, life expectancy for both genders has increased a great deal. In 1951, the life expectancy for males was approximately 32 years while for females it was approximately 31 years. This increased to 60.6 years for males and 61.7 years for females by 1996.

Table : Percentage Distribution of Projected Population by Age and Sex, 1996–2016, India

Age		1996		2001		2011		2016				
	M	F	P	M	F	P	M	F	P	M	F	P
0-4	12.6	13.0	10.6	10.6	10.8	10.7	10.1	10.2	10.1	9.7	9.7	9.7
5-9	13.2	13.3	11.3	11.3	11.6	11.5	9.4	9.4	9.4	9.3	9.3	9.3
10-14	11.9	11.5	12.1	12.1	12.1	12.1	8.9	9.0	8.9	8.7	8.7	8.7
15-19	9.9	9.5	11.0	11.0	10.5	10.8	9.7	9.9	9.8	8.3	8.3	8.3
20-24	8.6	9.0	9.1	9.1	8.7	8.9	10.4	10.3	10.3	9.0	9.1	9.1
25-29	7.8	8.5	7.9	7.9	8.2	8.0	9.4	8.9	9.2	9.7	9.5	9.6
30-34	7.0	7.2	7.2	7.2	7.7	7.4	7.8	7.3	7.6	8.7	8.2	8.5
35-39	6.2	6.0	6.4	6.4	6.6	6.5	6.7	6.9	6.8	7.2	6.8	7.0
40-44	5.3	5.0	5.6	5.6	5.5	5.5	6.0	6.5	6.2	6.2	6.4	6.3
45-49	4.4	4.2	4.7	4.7	4.5	4.6	5.3	5.4	5.4	5.5	5.9	5.7
50-54	3.6	3.4	3.9	3.9	3.7	3.8	4.6	4.6	4.5	4.8	5.0	4.9
55-59	2.9	2.8	3.1	3.1	3.0	3.1	3.7	3.6	3.6	4.0	4.0	4.0
60-64	2.4	2.4	2.4	2.4	2.4	2.4	2.9	2.8	2.9	3.2	3.1	3.1
65-69	1.7	1.8	1.9	1.9	1.9	1.9	2.1	2.1	2.1	2.3	2.4	2.4
70-74	1.3	1.2	1.3	1.3	1.3	1.3	1.4	1.5	1.4	1.6	1.6	1.6
75-79	0.5	0.5	0.8	0.8	0.8	0.8	0.9	1.0	1.0	0.9	1.0	1.0
80+	0.8	0.8	0.6	0.6	0.6	0.6	0.8	0.8	0.8	0.8	0.9	0.9
All	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Key: M: Male; F: Female; P: Population

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Table delineates the distribution of population according to age and sex Human Resources based on projections made in 1996. The table shows that the percentage of population below the age of 5 would decline from 10.6% in 1996 to 9.7% in 2016. Conversely, the population of ages 20-24, 25-29 and 30-34 would increase from 9.1, 7.9, 7.2 in 1996 to 9.1, 9.6 and 8.5 in 2016 respectively. As the ages 20-24, 25-29 and 30-34 are considered the most productive in an individual's life, it has been predicted that India would face a demographic dividend in the early part of the 21st century.

Indian census has divided six types of cities according to population. The number of cities in the higher grade is increasing whereas the lower grade cities are slowly decreasing in India. There are twelve big cities with more than 10 lakh population. According to the 1991 census, only 25.72% of the population lived in the cities, whereas according to the 2001 census, 27.8% of the population lives in the cities.

Population and Demographic Projections

Though there are many criticisms on population projections, its uses are recognized by society. For effective planning of the country, population projections are essential. Trends in population growth, composition, etc. give an idea of the country's future. Both quantitative and qualitative analyses are essential to understand the growth trend of the country. Generally, it is found that projections given by the demographers are more accurate than others. A population estimator (projector) tries to estimate the size and growth rate of the future population on the basis of past and present demographic rates like death, birth and migration. Population projection is in relation to time.

Population Projection in India

Projections are made by academicians, demographers and institutions like the United Nations, Central Statistical Organizations, Planning Commission, etc. In 1949, Kingsley Davis made three projections for India. Though his predictions were far removed from reality, his projections had given theoretical knowledge for academicians and demographers. In 1951, Census Commissioner and Registrar General of India Mr. R.A. Gopalasamy predicted the Indian population. Both Kingsley Davis and Gopalasamy used geometrical growth rate. In 1954, Gupta and Majumdar projected population using Reverse Survival Method. In 1959, the Government of India projected its population till 1981. Besides these, there are several agencies and experts who gave population estimates for the country. In 1996, before the formulation of the 9th plan, the Planning Commission had constituted a technical committee for population projections for the country for the period 1996 to 2016.

Demographic Scenario: Past, Present and Future Challenges

The demographic scenario of population growth with reference to the past, present and the future can be understood taking into consideration the following factors:

1. Size and growth
2. Rural and urban population
3. Sex and age composition
4. Expectation of life at birth
5. Density
6. Growth rate
7. Literacy

Population of India can be discussed in two broad periods namely:

(i) The pre-modern period (before 1881)

(ii) The modern period (after 1881 till date)

The year 1881 is considered as the cut-off period as it is the first time census operations were done in India.

In ancient times there was no systematic way to enumerate the population. During the urban metropolitan and the great pastoral agricultural civilizations, the living conditions were very good and as a result of this there was declining mortality and morbidity. History shows that during 490 B.C. and 297 B.C., India was one of the most populous states of the world. Alexander's army invaded India in 4th century B.C. and left behind large numbers in the region. Pran Nath, who later studied Indian population, confirmed that India's population was between 100 and 140 million during 300 B.C. There was a stagnant population till around A.D. 1600. This is evident from history. Moreland says that India's population during Akbar's period was 100 million. Later demographers and population experts like Davis, Das Gupta, Datta also agreed that the Indian subcontinent had a population of 100 to 140 million population during A.D. 1600. During the years 1650 to 1800, the population of India was not stable and according to estimates, there were lots of fluctuations in the population. Mahalanobis and Bhattacharya estimated the Indian population as 207 million for the year 1800.

In the modern period, the growth of population was rapid at certain points and declining or stagnant at some other points. The first census was conducted in India in 1881; it had many shortcomings. Many areas were left out in this census. In 1901 while census operations were made, all the left-out territories in the earlier census were covered. Till 1931 census was done as a 'one night affair'. Since 1941, the system of

census has changed to the present style. The history of population growth in India since 1891 can be divided into three parts:

1. 1901–1921
2. 1921–1951
3. 1951–1991

The year 1921 was referred as the year of the 'great divide' as it distinguished Human Resources the population growth from a lesser speed to greater speed. It is a well-known fact that during the period of 1901-1921 there were lot of famines and contagious diseases which were the main reasons for the decline of the population during this period. During this period, India's population increased from 236 million to 251 million. This was the period when the mortality period was higher than the fertility rate.

From 1921 to 1951, the population growth fluctuated and the rate of population growth was 1.3% per annum. The size of the population increased from 251 million in 1921 to 361 million in 1951. In 1991, the size of the population reached 843 million. The year 1951 was another landmark in the history of census operation in India as this was the first census in the free India. The mortality rate decreased considerably during this period.

Causes of Growing Population in India

In India, the age of marriage is still very low and the preference for a son still exists in the minds of Indians even today. Literacy rates are low, particularly in the case of females. Male-female ratio is becoming increasingly unfavourable to women and mortality rates are to be reduced further. The birth rate in India is so high that it is higher than what the economy can sustain at the existing level of development. It is the ever-growing numbers which have made our population a matter of serious concern. Planning for such a large population is a very hard task.

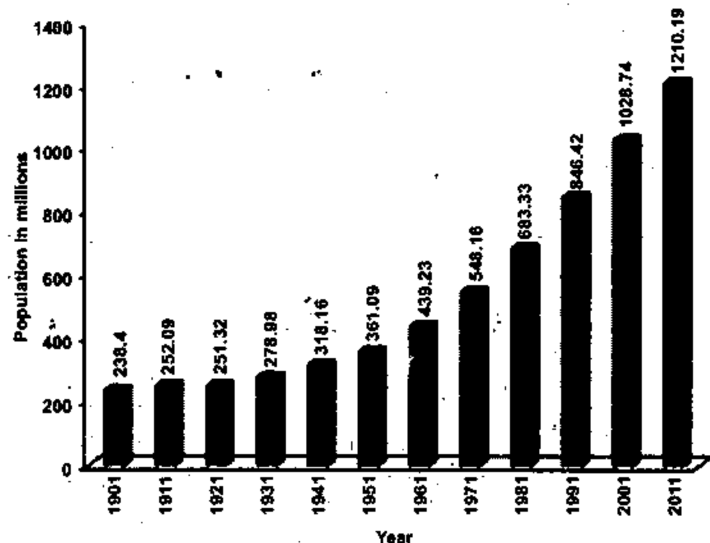

Fig. : India Population Increase

In March 2001, the number of Indian population was 102.7 crore. According to the 2011 Indian census, the population of India was around 121 crores.

Demographic Factors

1. **Gap between Birth Rate and the Death Rate:** Today, the rate at which development is taking place is very fast. The changing social circumstances and the advancement of science and technology has given a long life to human beings. In other words, the mortality rate has considerably decreased and the life span has increased. Though it is a healthy sign of development, but the other component of the population, namely, the birth rate, is still very high in the country.
2. **Early Age of Marriage:** Reproductive behaviour starts from marriage. Marriage is the permission for the sexual activity in Indian society. Though there are premarital sexual activities, they are prohibited, as the culture does not permit them. A young age at the time of marriage is one of the causes of high fertility in India which, in turn, is the cause of the growing population. N.C. Das, in his study, observes that women marrying between the age of 20 and 24 have the same fertility rate as those who marry before 20. A woman who marries after 25 has low fertility behaviour. Table 9.5 shows the average age of marriage for males and females in India from 1891 to 1991. The table shows that the average age of marriage for females in India was only 12.54 years in 1891. This was because the practice of child marriage was rampant in the country. After Independence, many social programs were undertaken to stamp out the practice of child marriages. It had a modicum of success. The average age of marriage for females increased to 17 by 1971. However, today, the average age of marriage in India for women is still 19 years. As a result, the reproductive behaviour of Indian women is still very high. The legal age of marriage in India is 18 years for females and 21 for males. It is estimated that in our country 26% of the females marry at the age of 15 and 54% marry before they reach 18 years. Adolescent marriages are high in Bihar, Rajasthan, Manipur and Goa.
3. **Fertility Rate:** It is understood that in India most childbirths occur during the age of 15–19 years. Fertile union starts with the age of effective marriage and it continues up to death. Other causes of stoppage of fertility are separation, crossing of the maximum fertile age, which is considered as 50 years, etc. The fertility of the female is an important factor affecting reproduction and

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consequently increasing the population. According to Prof. Visaria, the general fertility rate should be reduced significantly.

4. **High Reproductive Age Group:** In our population, the largest number falls in the reproductive age group. Almost 58% of our population is in the reproductive age group. It is estimated that between the years 1991 and 2016 a population of 417.2 million will be added in spite of the fact that the small family norm has been adopted by many states. This momentum of increase of population is due to the fact that total fertility rate was very high in the earlier years and the consequence is that reproductive population in the total population is very high. India has to go very strictly with the small family norm in the coming years to reduce the size of the population.

   Higher fertility is also due to the unmet demand for contraception. At present India has around 169 million eligible couples and the country can meet the contraceptive needs of only 22% of this population. Contraceptive knowledge is also very low in India. In the rural areas and even in some pockets of urban areas contraceptive knowledge is almost nil. With 20–30% of males and 10% of the females sexually active before marriage, there is a need for contraceptive knowledge. The abortion rate in India is very low when compared to other countries.

   Most Indians still want large families. The traditional joint family is an Indian feature and people respect the joint family even today. Another demographic reason is the male attitude towards family planning. Many researches reveal that the adoption of family planning methods are considered to be a women's job.

5. **Economic Factors:** Human behaviour is very dependent on the economic aspects of the region in which a person lives. Even fertility, mortality and other demographical features are dependent on economic factors. Occupation and income are the two most important economic factors which influence fertility behaviour.

6. **Predominance of Agriculture:** It is a well-known fact that more than 70% of the Indian population lives in rural areas and is engaged in agriculture directly or indirectly. From the beginning of the last century the pattern of agriculture has been the same. Occupational distribution is almost a permanent feature in India. In rural India, every child is considered an asset as he/she is a free farm labourer. It is for this reason that in agrarian societies children are not considered

an economic burden. So agricultural families prefer bigger families with more children. On the contrary, in industrial societies, as parents have to support the children, they prefer small families and thus the number of children is usually less.

7. **Occupation and Fertility:** It is observed that white-collar workers have fewer children than blue-collar workers. Likewise, in those families where the wives are also white-collar workers, fertility behaviour is positive in nature. As mentioned above in the rural areas where people are mostly engaged in skilled jobs, the size of the family is large as compared to their counterparts in the urban areas.
8. **Slow Urbanisation Process:** The urban population in India is very low when compared to European countries. In European countries almost 70% of the population lives in urban areas whereas in India even after 57 years of Independence, only 25.7% of the population lives in urban areas. In 1951, only 17.62% lived in urban areas. Thus, the pace of urbanisation is very low in India. Those who are living in the rural areas have an access to technology and knowledge. Though there are many demerits in living in the urban areas they are aware of the importance of the small families and the importance of children in modern society. Upbringing of children in cities is difficult. In the villages children grow on their own whereas, in the cities, every stage is difficult as competition is very high. The cost of living is high in the cities and this reinforces the parents to think before they go for the 'next' child. In the countries where urbanisation is more, the fertility rate is low whereas in the non-industrialized areas, the fertility rate is high.
9. **Income and Fertility:** Many studies reveal that the number of children born per couple decreases with the increase in the per capita monthly income or expenditure of the household. This phenomenon is seen both in the urban and in the rural areas. A better income to the family provides a better lifestyle and therefore parents do not want to take any risk by producing more children, thereby destroying the atmosphere of the family.

   Another factor which is responsible for a higher rate of fertility in India is widespread poverty. Almost 40% of the Indian population lives below the poverty line. Many rural families which neither have any occupation nor any other leisure indulge in sexual activities which leads to an increase in the number of children. Moreover, in rural families and many other poor families each child is an economic asset. In one report the World Bank has stated that

'there are good reasons why, for poor parents, the economic costs of children are low, the economic benefits of children are high and having many children makes economic sense.'

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Educational Factors

Illiteracy is widespread in India. According to the 1991 census, 47.89% of the population is illiterate in India. The level of illiteracy is very high in India, as compared to other countries. The rate of female literacy is very low here. The percentage of female literacy is 39.42% and 63.86% for men. Female literacy rate is more concentrated in urban areas. Female illiteracy is more in the northern states, namely Uttar Pradesh, Bihar, Rajasthan and Madhya Pradesh. In India, almost all the scientists and planners agree that only education can change the attitude of the people, especially towards the composition of family and the components of the family like marriage, girl child, size of the family, etc.

Education brings about a total change in the personality of an individual. If both the couples are educated the perception towards marriage and family is positive in nature and which helps the couple to plan the family. A few years of formal schooling bring a perceptible change in the reproductive behaviour. Thus, there is a causal relationship between education and fertility behaviour. Education is capable of changing the minds of people in two ways. Firstly, it changes the attitude of the people. Secondly, it gives an awareness regarding hygiene, diseases, etc. Education influences both the parents and the children. A higher level of education is correlated to higher age of marriage, small family size, wide spacing between the children, etc. Studies have revealed that the mother's education is more strongly correlated with the couple's fertility intentions than the education of her spouse. If the mother's education has reached secondary and higher levels, the impact is greater. Children's education also affects the fertility behaviour. When the parents have high aspirations towards children's education, the size of the family tends to be smaller than in families where the parents do not plan their children's education properly.

Psychological and Religious Factors

Most of the psychological factors have a religious base. One of the most important psychological factors which operates in Indian families is that children are necessary to retain the family name. It is a pleasure for many families to share their resources with the children. Another factor is the dependency factor. In a country where there is not much scope for the old, parents feel that they have to depend upon the children during their old age. Many parents feel that it is nice to have more than one child so that at least

one of them will look after them during their old age. Psychologically, many parents feel secure when there are children with whom they can share their happiness and sorrows.

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Hinduism states that only a son can perform the last rites and a daughter must be given away in marriage. Thus, both sons and the daughters are necessary for a man to get Moksha. The other religious beliefs are that children are Godgiven gifts. Marriage is considered a religious affair by almost all religions. A marriage without children is attributed to the curse of the God towards the couple. Thus, couples try everything to have children, especially sons.

Social Factors

India's growing population is mainly due to the social factors existing in the country. Universality of marriage, low age of marriage, religion and superstitious beliefs, joint family system, etc., are some of the important social factors which influence the fertility rate.

1. **Lower Age at the Time of Marriage:** India is one of the countries where marriages usually take place at a lower age. Studies show that the fertility rate decreases only when brides are above 25. The National Policy of Population announced that the age of marriage of girls as 18 and boys as 21. S.N. Agarwala said, 'It has been calculated that an increase in the mean age of the marriage of females by six and half years during the period 1891- 1901 to 1981-1991 in India has resulted in a 4.3% decline in the birth rate over the period'.

   Marriages in India had some peculiar rules and accordingly widow remarriage was prohibited. An act was passed permitting widows to remarry in the year 1891. According to Dr. Chandrashekar, 'There are about 24 million widows of all ages, including virgin widows who normally do not marry. Even widowers do not marry as a rule. But India is in fact changing and, of late there are some men who are willing to marry eligible and unencumbered widows.'

2. **Universality of Marriage:** Marriage is both a religious and social phenomenon in India. There is a belief that the marriage of a daughter at a suitable age according to religious sanctions makes the marriage universally acceptable. According to statistics, presently in India by the age of 50, only 5 out of 1,000 Indian women remain unmarried. The average age of marriage is also very low in India as compared to other developed countries. Dr. Chandrashekar says that '... everyone in India, sooner or later usually sooner, gets married. Marriage is not merely a necessary social institution but a quasireligious duty ... spinsters

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and bachelors are a rare phenomenon in India and nearly every adult male and female in the country participates in reproduction.'

In our country, bearing of children is considered the most important duty of a married woman. Her status in her husband's house depends upon the level of her childbearing capacity. Even the gender of the child is important for the woman to get the right status in the husband's house. For example, if the woman is not able to bear a son, her status is low in her husband's house. The spacing of the children is also not determined by the couple but by the extended family in which she lives. Thus, couples are not free to chart their reproductive behaviour.

3. **Ignorance and Superstition:** It is believed that children are a God-given gift. Superstitions are so strong in India that marriage is the main institution where the belief system influences the maximum. Sons are considered religious, social and economic resources. Manu's law has influenced every person in India irrespective of region and religion. Although various religious groups have their own rules and regulations regarding marriage and size of the family all the religions favour universality of marriage and necessity of bearing children.
4. **Joint Family System:** The joint family system is one of the convenient systems for bringing up the children. In the traditional joint family system, children are considered as the common property and the parents never care of their children. Children grow on their own or all the adults have equal responsibility in taking care of the children. As difficulties are not experienced by parents in bringing up the children, planning of the family is seldom done. There is a kind of social insurance in a joint family for the children and the adults. Hence, the population in a joint family is not a problem at all. In traditional India, marriage was the only function for women, thus the parents and the girl looked forward to these functions. As soon as the girl attained puberty, parents gave her in marriage. Another reason was that in earlier days when the mortality rate was high, people did not want to stop the family size. This also added to population growth. Prof. Jayasurya points out, 'In a society which practised agriculture of the traditional type, a large number of children was an advantage. Even if a few of them did not survive beyond 10 or 12, they fulfilled at these and younger ages as well, certain functions of economic nature, such as tending cattle or sheep, or carrying out simple tasks in the field.'
5. **Status of Women:** Today, the majority of women are aware of the small family norm. Working women prefer fewer children and follow this norms. In

traditional society the status of women depended on the number of children. In fact the number of the male children counted to determine the status of the mother. Even today in India, a childless mother is looked down upon by society. Other social causes are infant mortality and absence of sex education.

2.8 Population Policy 2010

Population Policy in India

In India, the most important and the only component affecting the population is fertility. Regarding the other two components, namely, mortality and migration, migration does not have a significant effect on the population of India. As for international migration, the volume of such migration is not very large, and migration within the country is a constitutional privilege and the question of any special policy in this regard does not arise. Therefore, when the population policy of India is analysed, only fertility and mortality may be taken into consideration. India's population policy is a fertility-oriented one. The anti-natalist policy of the country is one of the first in the world. If one looks into the history of the population growth and the population policy of the country, one can see that a serious concern about a population policy came into existence only after independence.

The British rulers of the country were not interested, either in the quantity or the quality of the Indian population. So, they were not interested in formulating a population policy for India. They took no interest in family welfare and family planning programmes. But a section of the Indian elite took interest in the population of the country between the two World Wars, though the visible elite were interested only in the freedom movement. The high rate of mortality and density in some pockets was pointed out by a few scientists. The census in 1931 indicated an increase in the population and many people warned the country about the consequences of this increase in the coming years. They also advocated the need for a population policy for spreading the practice of birth control.

Between 1916 and 1947, many events related to population occurred. In 1925, the first Family Planning Clinic was opened in Bombay by R.D. Karve. The same year Rabindranath Tagore wrote, 'I am of the opinion that the birth control movement is a great movement, not only because it will save women from enforced and undesirable maternity, but also because it will help the cause of peace by lessening the number of surplus population of the country, scrambling for food and space outside its own rightful limits. In a hunger-stricken country like India, it is a cruel crime to thoughtlessly bring more children into existence than can be properly taken care of, causing endless sufferings

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to them and imposing a degrading condition upon the whole family.' Then, the Mysore Government took the first step in opening the first Government Birth Control Clinic in the world. In 1931, the senate of the Madras University accepted the proposal to impart instructions regarding the methods of conception control. In 1935, the Indian National Congress set up a national committee under the chairmanship of Jawaharlal Nehru and gave the following recommendations:

1. We agree with the view that the size of the Indian population is a basic issue in national economic planning, in so far as its unrestricted increase of proportion to means of subsistence, affects adversely the standard of living, and tends to defeat many social ameliorative measures. The problem has been fundamentally caused by the lack of all-round coordinated economic development. While measures for the improvement of the quality of the population and limiting excessive population pressure are necessary, the basic solution of the present disparity between population and standard of living lies in the economic progress of the country on a comprehensive and planned basis.
2. In the interest of social economy, family happiness and national planning, family planning and limitation of children are essential: and the state should adopt a policy to encourage these. It is desirable to lay stress on self-control as well as to spread knowledge of cheap and safe methods of birth control. Birth control clinics should be established and other necessary measures taken in this behalf to prevent the use or advertisement of harmful methods.
3. We consider raising the eligibility of the marriage age and the discouragement of polygamy is desirable in the interests of the limitation of the size of the family.
4. Programmes should include the sterilization of persons suffering from transmissible diseases of a serious nature, such as insanity or epilepsy.
5. The maintenance of vital statistics and the carrying out of periodic demographic surveys on comprehensive lines are necessary; and appropriate machinery should be devised for the purpose.'

This was a historical recommendation for the country. In 1940, P.N. Sapru successfully moved a resolution in the Council of States for the establishment of birth control clinics. The Indian Independence Movement was in full swing during this time and several opinions came from the leaders regarding birth control, population control and economic development. Gandhiji was the most important person at that time and he was against the artificial means of birth control. He advocated moral standards to

control births. He emphatically declared that 'There can be no two opinions about the necessity of birth control. But the only method handed down from ages past is self-control or brahmacharya. It is an infallible sovereign remedy doing good to those who practise it. The union is meant not for pleasure but for bringing forth progeny.' After independence, population growth got a new direction.

National Population Policy, 2000

On 11 May 2000, India's population reached 100 crore and it is estimated that if current trends of population increase continue she will become the most populous country in the world by 2045 when it would go beyond China. During the 20th century, India's population increased nearly 5 times from 23 crore to 100 crore, while during the same period world's population increased nearly 3 times from 200 crore to 600 crore.

It seems difficult to maintain a balance to conserve the resource endowment and environment in the country with 1.55 crore current annual increase in population, hence there is an urgent need to stabilize population. The basic goal of this policy is to cover various issues of maternal health, child survival and contraception and to make reproductive health care available and affordable for all.

There are three types of objectives of National Population Policy (NPP) 2000:

1. The immediate objective: The immediate objective of the policy was to address the unmet needs for contraception, health care infrastructure and health personnel and to provide integrated service delivery for basic reproductive and child health care.
2. The mid-term objective: The mid-term objective is to bring the Total Fertility Rate (TFR) to replacement level by 2010 through forceful implementation in inter-sectorial operational strategies.
3. The long-term objective: The long-term objective is to achieve a constant population by 2045 at a level consistent with the desires of sustainable economic growth, social development, and environment protection.

The following are the targets of National Population Policy:

- By 2045 achieve zero growth rate of population.
- To bring down infant mortality rate of below 30 per 1000 live births.
- To bring down maternal mortality ratio of below 100 per 1,00,000 live births.
- To bring down birth rate to 21 per 1000 by 2010.
- To bring down total fertility rate (TFR) to 2.1 by 2010.

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National Socio-Democratic Goals 2010

To accomplish these objectives and targets, national socio-demographic goals have been framed which, in each case, are to be achieved by the year 2010. National Socio-Demographic Goals for 2010

- Address the unmet needs for basic reproductive and child health services, supplies and infrastructure.
- Make school education up to age 14 free and compulsory, and reduce drop outs at primary and secondary school levels to below 20 per cent for both boys and girls.
- Reduce infant mortality rate to below 30 per 1000 live births.
- Reduce maternal mortality ratio to below 100 per 100,000 live births.
- Achieve universal immunization of children against all vaccine preventable diseases.
- Promote delayed marriage for girls, not earlier than age 18 and preferably after 20 years of age.
- Achieve 80 per cent institutional deliveries and 100 per cent deliveries by trained persons.
- Achieve universal access to information/counseling, and services for fertility regulation and contraception with a wide basket of choices.
- Achieve 100 per cent registration of births, deaths, marriage and pregnancy.
- Contain the spread of Acquired Immunodeficiency Syndrome (AIDS), and promote greater integration between the management of reproductive tract infections (RTI) and sexually transmitted infections (STI) and the National AIDS Control Organization.
- Prevent and control communicable diseases.
- Integrate Indian Systems of Medicine (ISM) in the provision of reproductive and child health services, and in reaching out to households.
- Promote vigorously the small family norm to achieve replacement levels of TFR.
- Bring about convergence in implementation of related social sector programsso that family welfare becomes a people centred programme.
- Population by 2045, at a level consistent with the requirements of sustainable economic growth, social development, and environmental protection.

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2.9 Transport Coordination

The transport system helps to broaden the market for goods and by doing so, it makes possible large-scale production through division of labour. It is also essential for the movement of raw materials, fuel, and machinery to the places of production. Expansion of transport is of fundamental importance for a developing country like India.

Various Modes of Transport

1. **Growth of Indian Railways:** Indian Railways is the country's biggest nationalized enterprise. It is one of the largest railway systems of the world with 63,000 route kms, approximately 8,000 diesel and electric locomotives, 42,000 passenger coaches, 2, 22, 000 wagons and employing nearly 1.6 million staff. The Ministry of Railways Vision 2020 document envisages the railway sector's share in the GDP to increase from the existing level of 1 per cent to about 3 per cent and its revenues to grow by 10 per cent annually over the next ten years. Some of the major goals set for 2020 in the document include (a) laying of 25,000 km of new lines; (b) quadrupling of the 6,000 km network with segregation of passenger and freight lines; (c) electrification of 14,000 km; (d) completion of gauge conversion; (e) upgradation of speed to 160-200 kmph for passenger trains; and (f) construction of 2,000 km of highspeed rail lines.

Motor transport as well as road construction have contributed significantly to the growth of the gross national product all over the world, but India remained significantly backward in this regard.

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Road transport is quicker, more convenient and more flexible. It is particularly good for short distance travel as well as for movement of goods. However, in the case of railways, the lines are fixed and the railways do not have the flexibility of the roadways. Passengers and goods will have to be taken to the railway station.

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Roads are a necessary complement to railways. India is a country of villages and it is only roads which can connect villages; Railways can connect towns. The railway stations will have to be properly served by a network of feeder roads. Only through these roads the railways can receive their passengers and goods.

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Road transport is of particular advantage to the farmers. Good roads help the farmers to move their produce, particularly the perishable products, like vegetables, quickly to the mandis and towns. Only by developing the road system, the farmer can be assured of a steady market for his products. This assumes great importance in the context of the green revolution.

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Roads are highly significant for the defence of the country. In a vast country like India, it is necessary that the troops should be moved quickly from on place to another in times of emergency. The railways are useful here. But more important than the railways is the road transport. Now-a-days the army has to move its troops, its tank and armoured cars, its field guns, and so on. For the movement of these, roads are essential.

Fig. : Contribution of Road Transport System in India

2. **Roads and Road Transport System in India :** As compared to the railways, the road transport system has definite advantages:
3. **National Highway Development Projects:** The National Highways Authority of India (NHAI) and the National Highways and Infrastructure Development Corporation Ltd (NHIDCL) are primarily responsible for the construction of national highways and expressways across the country. The government is committed to expanding the national highway network across the country with the aim of constructing 18,000 km of highways in 2022-23 at a record speed of 50 km per day.
4. **Civil Aviation in India:** Air traffic in India continues to register significantly higher rates of growth averaging 18.5 per cent in the last seven years. The government will establish 33 new domestic cargo terminals by 2024-2025 which will allow India's cargo sector to flourish and grow. To fulfill this, there is a need to work on ease of doing business in cargo sector by making processes paperless, adapting automation, and digitalization which can make cargo processing swift. During the last two years in the midst of COVID pandemic, cargo sector has emerged as a promising area not just for Indian aviation but for global aviation. The Indian cargo sector has witnessed a growth rate of 9 to 10 percent since 2013-14. During the last two years, airlines have witnessed 520 percent increase in cargo revenue. The Union Budget has allocated ₹ 10,667 crore for the civil aviation ministry for 2022-23.
5. **Airport Infrastructure:** The International Airports division of AAI, operates and develops international Airports.It has undertaken construction of terminal complexes at various international airports and improvement/upgradation of runways and terminal buildings. However, the improvement of infrastructure at the airports needs heavy capital investment which the government cannot afford of its own. Therefore, private domestic and foreign investors including NRIs have been encouraged to participate in the process of improvement. India had the world's third-largest civil aviation market in 2017. India is expected to overtake China and the United States by 2030, according to the International Air Transport Association (IATA). During the previous three years, India's civil aviation industry has become one of the country's fastest expanding industries. India has surpassed the United Kingdom to become the world's third-largest domestic aviation market, with the UK anticipated to be overtaken by India as

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the world's third-largest air passenger market by 2024. There were 153 airports in the country as of June 2020. Only 114 of the 153 airports were utilized for domestic flights. These airports were either owned by the Airport Authority of India or the states in which they were located, or they were privately owned or part of a joint venture. In FY21, India's passenger traffic was 115.37 million. Due to COVID-19 related flight restrictions in FY21, domestic and international passenger traffic dropped at a CAGR of -9.02% and -28.64%, respectively, from FY16 to FY21. In India, there are 487 airports/airstrips, of which AAI manages 137, including 29 international airports (3 civil enclaves), 10 customs airports (4 civil enclaves), and 103 domestic airports (23 Civil Enclaves). Airports are important to a community because they provide access to the worldwide market for local businesses. They aid in the retention and attraction of businesses to a town, resulting in the creation of jobs and economic success. Airports are well aware of their importance as economic drivers and facilitators in their respective regions. They facilitate trade and employ a large number of people in supporting services, both directly and indirectly. Airport development planners should prioritize transportation investment.

Importance of Transport to Economic Growth

Transport plays an important role in today's modern world. It helps in removing the distance barrier. An efficient transport system is essential for sustainable economic development of the country and plays a significant role in promoting national and global integration.

An efficient transport helps in increasing productivity and enhances competitiveness of the economy. Efficient transport is indispensable to the economic development of nation.

Transport routes are the basic economic arteries of the country. Transport system is regarded as the controller of the national economy and provides a very important link between production and consumption. The amount of traffic moving in a country is a measure of its progress.

In a country like India, the importance of transport is more because of its vastness as well as varied nature of geographical conditions. In India, it is also a source of national integration. The present Indian transport system comprises several modes including rail, road, coastal shipping, air transport, etc. Transport has recorded a substantial growth over the years both in terms of length and output of the system.

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Difference between Relative Poverty and Absolute Poverty

The major differences between relative and absolute poverty are given in Table

Table : Differences Between Relative and Absolute Poverty

Absolute Poverty	Relative Poverty
1. It refers to the total number of people living below poverty line.	1. It refers to poverty of people relative to other people or regions.
2. The concept has relevance for less-developed countries than the developed ones.	2. When we say India is relatively poor, a comparison is drawn with regard to the per capita income.
3. In India, absolute poverty is calculated with the help of poverty line.	3. Relative poverty is calculated with the help of Lorenz curve and Ginni Coefficient.
4. In India 21.8 per cent of the total population is absolute poor.	4. India is relatively one of the poorest countries of the world as its per capita income is less than one dollar per day.

2.10 Poverty and Unemployment

One of the most acute challenges that the Indian economy has been facing is the mounting rate of unemployment. It promotes poverty and inequalities, lowers social standards and is a huge loss of manpower resources to the nation. Unemployment is a chronic malady in India that deprives able bodied people to work on the current wages. It lowers the standard of living of the people since unemployed people do not have enough purchasing power. They face social degradation and suffer from inferiority complex. Therefore, some economists call unemployment problem as a socio-economic challenge to the society. Unemployment is becoming a serious problem in India, though accurate estimate is difficult to obtain. About 7 million people are added to the labour force every year and the number is also increasing at faster rate. But on the contrary, the economy growth is not creating enough jobs.

The unemployment rate fell to 4.2% in 2020-21, compared with 4.8% in 2019-20. The rural areas recorded an unemployment rate of 3.3% and urban areas recorded an unemployment rate of 6.7%. Employment growth in the organized sector, public and private combined declined during the period 2020-2021. This can be attributed to the increase in employment rate in the public organized sector. Unemployment rate in urban India in the January-March quarter of 2021-22 fell for the third consecutive quarter to 8.2% from 8.7% % in October-December quarter, 9.8% in the July-September quarter and 12.6% in the April-June quarter after the ebbing of the second wave of the pandemic. It stood at 9.3% in the corresponding quarter of 2020-21. The quarterly periodic labour

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force survey released by the ministry of statistics and programme implementation showed male urban unemployment rate during the period at 7.7% while the female urban unemployment rate was higher at 10.1%, maintaining the trend seen over the last several quarters. unemployment rate (UR) is defined as the percentage of unemployed persons in the labour force.

The urban unemployment rate rose to 9.22 per cent in April from 8.28 per cent in March.The rural unemployment rate dropped to 7.18 per cent from 7.29 per cent. Unemployment rate was the highest in Haryana at 34.5% followed by Rajasthan at 28.8%, Bihar 21.1% and Jammu and Kashmir 15.6%. Employment in India fell from 408.9 million in 2019-20 to 387.2 million in 2020-21 and then recovered to 401.8 million in 2021-22 The recovery in 2021-22 was inadequate. Employment was still 1.7%, or 7 million short of the employment level of the pre-pandemic year of 2019-20.

Unemployment and Underemployment: Definitions

Unemployment is defined as a situation wherein able bodied persons fail to find a job even though they are willing to work at the prevailing wage rate. Unemployment is a two-fold phenomenon:

- An individual is not currently employed
- He/she is ready to work at the prevailing wage rates
- An individual must make an effort to find work

According to the Bureau of Labour Statistics, USA, the unemployed include people who do not have a job, have actively looked for work in the past four weeks, and are currently available for work. Also, people who were temporarily laid off and are waiting to be called back to that job are included in the unemployment statistics. In another sense, workers are considered to be the producer of services and when they are unable to sell their services, they are said to be unemployed. Underemployment, however, refers to a situation when a worker does not work for full hours (normally 8 hours a day). It is again the underexploitation of manpower resources of the country. The Indian agriculture sector is facing such unemployment.

Measures for Unemployment in India

The following measures are suggested in this regard:

1. **Increase in the rate of economic growth:** It is believed that higher economic growth rate will lead to larger production and thereby larger increase in employment. Therefore, the government should plan to introduce labour intensive technique of production which should give more emphasis on those levels of production which have high potential of employment opportunities.

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2. **High rate of capital formation:** The rate of capital formation must be increased in India. Capital formation should encouraged only in those areas which generate greater employment opportunities. Presently, this rate is 30 per cent of the GDP, but it needs to be raised to the level of 30 per cent to 35 per cent.
3. **Education reforms:** The Indian education system should be made more employment oriented. From the very beginning, emphasis should be laid on vocational education.
4. **More expansion of employment exchange:** Employment exchanges are the institutions that bring together jobs and jobs seekers. More employment exchanges will make the labour more mobile. However, there is a need to improve the functioning of employment exchanges in the country.
5. **Policy towards seasonal unemployment:** Indian agriculture is of a seasonal nature, due to which the Indian farmers remain unemployed for some time. The employment policy in India should act in the following direction to remove these problems:

- Promotion of multiple cropping
- Promotion of activities allied to agriculture
- Investment programmes for rural areas
- Setting up of seasonal industries

6. **Policy towards seasonal unemployment:** Nearly, 62 per cent people are self-employed in India, and most of them are engaged in agriculture sector. The government should provide different facilities and encouragement to the people who are engaged in their own occupations.
7. **Employment opportunities for women:** Presently, 12 per cent of women are employed in organized sector, which is a quite low percentage. The Government of India should take the following steps to promote women employment:

- Residential accommodation for working women on a large scale
- Education and training facilities for working mothers
- Availability of crèches for the children of working mother

8. **Promotion of co-operative industry:** The industries in cooperative sector should be encouraged. It requires lesser investment for the promotion of employment.
9. **Encouragement to small-scale units:** Small-scale units can provide more Poverty in India employment opportunities for men and women. There is a need of lesser skill and training in such units. The government should encourage such units by offering them special incentives.

10. **Special employment programmes:** The government should introduce special programmes for poor people, Schedule Caste and Schedule Tribes, landless labourers and unemployed women. These programmes should be centrally sponsored and properly monitored.

2.11 Poverty and Unemployment Eradication Programmes In India

The problem of poverty—a multidimensional challenge for India—needs to be addressed seriously. Poverty alleviation and improvement in the standard of living of the masses has been one of the most important objectives of planning in India. However, the emphasis that is laid on the objective of poverty alleviation and strategy to achieve this objective has changed over the years. The measures which have been adopted by the government for the removal of poverty are as follows:

1. **Economic growth:** Economic growth can be helpful in removing poverty because of the trickle-down effect. It was thought that the benefits of economic growth would trickle down to the underprivileged in the form of more employment and more income because of the expansion of agricultural and non-agricultural activities. There are several potential drivers of growth that suggest it may be possible to accelerate GDP growth in the Twelfth Plan beyond the 8.2 per cent level achieved in the Eleventh Plan. These drivers include the impact of economic growth, development of a dynamic private sector, good management skills, etc.
2. **Population control:** High growth rate of population among the lower strata of the society is an important factor that is responsible for the perpetuating problem of poverty. Jansankhya Sthirata Kosh (JSK) has been registered as an autonomous society of the Ministry of Health and Family Welfare. The Government has provided a 100 crore corpus fund to signify its commitment to the activities of the Kosh. JSK has to use the interest on the corpus and also raise contributions from organizations and individuals that support population stabilization.
3. **Agricultural development:** Along with a substantial increase in plan allocation and credit for agriculture proper, an ambitious Bharat Nirman for rural infrastructure, the National Rural Employment Guarantee Act (MGNREGA) to dovetail employment security with land and water conservation, and the Backward Regions Grants Funds (BRGF) have enabled Panchayati Raj institutions in poorer regions to make their own plans. In addition to enhancing

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the scope of these initiatives, and making modifications as suggested by the various working groups, the Eleventh Plan introduced the Rashtriya Krishi Vikas Yojana (RKVY). This put in effect the NDC resolution to 'introduce a new scheme for Additional Central Assistance to incentivize states to draw up plans for the agricultural sector more comprehensively, taking agro-climatic conditions, natural resource issues and technology into account, and integrating livestock, poultry and fisheries more fully.' The Twelfth Plan will consider all these issues, as well as the weaknesses of existing schemes as brought out in the Mid-Term Appraisal of the Eleventh Plan. Its thrust will be to move forward with the RKVY and, in particular, focus more on the issues of sustainable development.

4. **Land reforms:** The Government had worked on a combined Land Acquisition and Rehabilitation & Resettlement Bill, 2011. The reason for combining the two into a single legislation is that land acquisition and resettlement and rehabilitation (R&R) need to be seen necessarily as two sides of the same coin. The Bill seeks to balance the need for facilitating land acquisition for various public purposes, including infrastructure development, industrialization and urbanization, while at the same time meaningfully addressing the concerns of farmers and those whose livelihoods are dependent on the land being acquired.
5. **Development of cottage and small-scale industries:** The small-scale industries have been given a special place in the industrialization programme. Since these industries have played an important role in the generation of employment and in ensuring a more equitable distribution of income; the government has provided necessary incentives, support technical assistance and infrastructure facilities to promote these industries.
6. **Public Distribution System:** The government has also launched a scheme of Public Distribution System (PDS). The objective of this scheme is to provide cheap and subsidized food grains to the poor. The PDS functions through a wide network of fair-price shops. Since June 1997, a new scheme known as the Targeted Public Distribution System (TPDS) has been adopted in order to provide subsidized food grains for the families falling below the officially estimated poverty line at the rate of 10 kg per month per family.

The government is considering the National Food Security Bill, 2013. According to this Bill, every person belonging to 'priority households' are entitled to receive five kilograms of food grains per person per month at subsidized prices from the state

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government under the TDPS. The TPDS system today supports over 40 crore Indians below the poverty line with monthly supply of subsidized food grains. The system also provides gainful employment for 4.78 lakh Fair Price Shops Owners, their employees and hired labour who work at the FCI and state warehousing godowns.

Since the Fifth Five-Year Plan (1974–79), poverty alleviation has been adopted as an explicit objective of our economic planning. Since then, a number of poverty alleviation programmes have been launched with the specific objective of reducing poverty. During the 1970s, a number of special programmes for the rural poor were undertaken. Some of the important programmes were as follows:

- Small Farmers Development Agency (SFDA)
- Marginal Farmers and Agricultural Labourers Development Agency (MFALDA)
- Drought-Prone Area Programme (DPAP)
- Crash Scheme for Rural Employment (CSRE)

The wage employment programmes started as pilot projects in the form of Rural Manpower Programme (RMP) [1960-61], Crash Scheme for Rural Employment (CRSE) [1971–72], Drought Prone Area Programme started as Rural work Programme (RWP) [1972], Small Farmers Development Agency (SFDA), Marginal Farmers & Agricultural Labour Scheme (MF&AL) for the poorest of the poor. These experiments were translated into a full-fledged wage-employment programme in 1977 in the form of Food for Work Programme (FWP). In the 1980s, this programme was further streamlined into the National Rural Employment Programme (NREP) and Rural Landless Employment Guarantee Programme (RLEGP), Jawahar Rozgar Yojana (JRY1993–94) and Employment Assurance Scheme (EAS). This programme (RLEGP) begun in 1983.

In the 1980s and 1990s, the government undertook various programmes which were more comprehensive and made a direct attack on rural and urban poverty. The important programmes were as follows:

- National Rural Employment Programme (NREP)
- Rural Landless and Employment Generation Programme (RLEGP)
- Jawahar Rozgar Yojna (JRY)
- Integrated Rural Development Programme (IRDP)
- Scheme of Training Rural Youth for Self-Employment (TRYSEM)
- Self-Employment Programme for Urban Poor (SEPUP)
- Nehru Rozgar Yojna (NRY)

These special poverty alleviation programmes have been revamped, redesigned and restructured to make these programmes more effective. The important poverty alleviation programmes in operation in rural and urban areas are explained as follows:

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1. **National Social Assistance Programme (NSAP):** The National Social Assistance Programme (NSAP) which came into effect from 15 August 1995, represents a significant step towards the fulfillment of the Directive Principles in Article 41 of the Constitution. The programme introduced a National Policy for Social Assistance for the poor and aimed at ensuring minimum national standards for social assistance in addition to the benefits that the states are currently providing or might provide in future. NSAP, at present, comprises the following:

- ***National Old Age Pension Scheme (NOAPS):*** Under this scheme, helpless aged person of more than sixty-five years of age gets financial assistance of 75 per person.
- ***National Family Benefit Scheme (NFBS):*** Under this scheme, the family living below poverty line receives a lump-sum central grant in case of death of the primary bread earner in the family.
- ***National Maternity Benefit Scheme (NMBS):*** Under this scheme, a pregnant woman of more than nineteen years of age from a family living below poverty line gets assistance for maternity care.

2. **Indira Awaas Yojana (IAY):** It is an important scheme whose main purpose is the construction of houses for the poor people. Initially, it aimed at providing houses free of cost to the poor families belonging to scheduled castes and scheduled tribes and free bonded labourers. Later, the scheme was extended to cover other underprivileged categories as well.
3. **Shiksha Sahayog Yojana (SSY):** This scheme was launched on 31 December 2001. It aims at providing monthly education allowance of 100 for children whose parents meet the criteria of living below the poverty from the ninth to twelfth standard.
4. **Pradhan Mantri Gramodaya Yojana (PMGY):** PMGY was introduced in 2000–01 with the objective of focussing on village level development in five critical areas such as health, primary education, drinking water, housing and rural roads. PMGY includes the following three major projects:

- **Pradhan Mantri Gram Sadak Yojana (PMGSY):** PMGSY was launched on 25 December with the objective of providing road connectivity through good all-weather roads to all rural habitations.

- ***Pradhan Mantri Gramodaya Yojana (Gramin Awaas):*** This scheme was implemented in April 2000 based on Indira Awaas Yojana having at its heart the aim of sustainable habitat development in rural areas to accommodate the increasing housing needs of the poor people living in villages.
- ***Pradhan Mantri Gramodaya Yojana (Rural Drinking Water Project):*** Rural Drinking Water Project was launched with the objective of developing projects for providing water harvesting, water conservation and drinking water to drought prone areas.

5. **Samagra Awaas Yojana (SAY):** This scheme was undertaken in 1999–2000 on pilot project basis to meet the housing needs in one block in each twenty-five districts of twenty-four states and in one Union Territory with a view to ensuring integrated provision of shelter, sanitation and drinking water.
6. **Natural Food for Work Programme (NFWP):** This programme was initially launched in February 2001 for five months, and was further extended. The programme aims at augmenting food security through wage employment in the drought affected areas in eight states, namely, Gujarat, Chhattisgarh, Himachal Pradesh, Madhya Pradesh, Maharashtra, Orissa, Rajasthan and Uttarakhand. Under this scheme, wages are paid partly in kinds like food grains and partially in cash. It is the responsibility of the state governments to implement this scheme.
7. **Krishi Shramik Samajik Suraksha Yojana (KSSSY):** KSSSY came into effect in July 2001 with an aim to provide social security benefit to agricultural labourers, who were between the age of 18 and 60 years.
8. **Annapurna:** The Annapurna Scheme became effective from April 2000 as an entirely Centrally Sponsored Scheme. The main purpose of this scheme was to provide food security to meet the needs of senior citizens. The scheme became effective in most Indian states and five Union Territories. This scheme offered assistance to more than 6,08,000 families.
9. **Jawaharlal Nehru National Urban Renewal Mission (JNNURM):** This scheme was launched in 2005–06 for a sevenyear period. It has two components—Basic Service to the Urban Poor Programmes (BSUPP) and Integrated Housing and Slum Development programme (IHSDP).
10. **Valmiki Ambedkar Awaas Yojana (VAAY):** This scheme was launched in the year 2001. It facilitates the construction and upgradation of dwelling units for slum dwellers. It also provides community toilets under Nirmal Bharat Abhiyan.

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11. **Antodaya Anna Yojana (AAY):** With the sole aim of offering food security to the senior citizens under the National Old Age Pension Scheme, food grains are given to the beneficiaries at subsidized rates of 2 per kg. This scheme became effective from 1 April 2000 as an entirely Centrally Sponsored Scheme. It has covered more than 6,00,000 people. As announced in the Union Budget 2005–06, the AAY was further expanded to cover 50 lakh below poverty line households, which extends its coverage to 2.5 crore households.
12. **Garibi Hatao:** 'Garibi hatao', which means 'eradicate poverty' was the slogan of the Sixth Five Year Plan of the Indira Gandhi Government. Agricultural growth became the focus of the government and a number of poverty alleviation schemes were undertaken.
13. **Food for work programme:** A short run programme was initially launched with effect from February 2001 for five months, but it was further extended. The main objective of this programme was to augment food security by making available wage employment in the drought affected rural areas in eight states, namely, Gujarat, Chhattisgarh, Himachal Pradesh, Madhya Pradesh, Maharashtra, Orissa; Rajasthan and Uttaranchal. The Central Government is responsible for making available a sufficient amount of food grains for free to each of the states that was affected by the drought. Wages by the State government can be paid partially in kind (up to 5 kg of food grains per Monday) and partially in cash. Assuring the notified minimum wages, the workers are paid the minimum balance of wages in cash. This programme stood extended up to 31 March 2002 in respect of notified 'National Calamity Affected Districts'. This scheme was later merged in NREGS since 2 February 2006. Garibi Hatao: 'Garibi hatao', which means 'eradicate poverty' was the slogan of the Sixth Five Year Plan of the Indira Gandhi Government. Agricultural growth became the focus of the government and a number of poverty alleviation schemes were undertaken.
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2.12 Summary

Increases in productivity are the main factor responsible for economic growth, especially since the mid 19th century. The balance of growth has come from using more inputs overall because of the growth in output including new kinds of goods and services.

Occupational Structure refers to the distribution of work force over different sectors of an economy.

Investment in physical and human capital increases the productive capacity of the economy. Thereby, it helps to increase the total production of final goods and services in the economy over a long period of time. This is called economic growth. Technological progress helps to utilize the existing resources of the economy more efficiently. Capital is the foremost requirement for enhancing the productive capacity of the economy. The greater is the capital formation, greater will be the productivity of all other factors of production.

India's gross domestic product grew an average 9% annually for some years before the global financial crisis of 2008. Between 2004 and 2008, business confidence acquired a swagger and investments increased at a rapid pace. India did find a sweet spot between 2004 and 2008, with investments driving growth. Post-crisis, the world has changed. Developed economies haven't been able to shake off the effects of the economic crisis.

Physical capital refers to the assets which themselves have been manufactured and are used for production of other goods and services. In a broader term, physical capital refers to all non-human assets created by humans and used in the production and manufacturing process.

Human capital refers to the skills, training, experience, education, knowledge, know-how, and competencies contributed by humans to a business. In other words, human capital can be referred to as the value that is added onto a company by an employee, which can be measured by the employee's skills and competencies.

Capital formation is addition to productive capacity of the economy. It is also known as investment in national accounting. Terms like capital formation, or additions to physical stock, or investment are synonymous in economic parlance.

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The concept of national income is very important in macroeconomic accounting and theory. While for an individual, his income during any given period of time largely consists of the earnings which he receives from his participation in the productive activities carried on in the economy, national income is the aggregate of all those individuals' earned incomes who are residents of the country.

The rationale behind excluding these different items from the national income is that any component of the market price which does not represent the earnings of the factors of production generated in the production processes should not be included in the national income.

Disposable personal income is derived from personal income by deducting from personal income direct personal taxes, such as personal income tax. The residue left is the disposable personal income because it represents the total amount of income which is available for disposal by the person concerned. The difference between the disposable personal income and personal saving is personal outlays which may be incurred in the form of consumption expenditure and interest paid by the consumers.

The important thing to remember in connection with the concept of national product is that it includes all those goods and services which are the result of the economic activities (productive services) of the residents or nationals of a country. At the same time, it excludes the share of the foreigners' services in the total product raised within the economy.

Gross national product (GNP) is the total output of the final goods and services produced during any given period of time by the residents of a country. The total output of final goods and services consists of the consumption and capital goods.

The difference between the gross national product and the net national product follows from the exclusion and inclusion of capital depreciation or replacement investment. Net national product is the residual gross national product after capital consumption allowance (CCA) is allowed.

National product or income estimates also serve as significant indicators of the economic prosperity of a nation. Ceteris paribus, a higher national income means the availability of more goods and services in larger quantities which with a given population would mean higher per capita income.

Like many other third world countries, the urban population of the country is increasing very slowly. Despite the growing migration from rural to urban areas, the population living in the urban areas is only 25 to 30%. Migration from rural areas to urban areas is increasing every year. In earlier days the maximum migration was towards

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Tripura, followed by Delhi. Lower migration was observed in the states of Rajasthan, Madhya Pradesh, Bihar and Uttar Pradesh. The high rate of migration in Assam is due to industrialisation.

Though there are many criticisms on population projections, its uses are recognized by society. For effective planning of the country, population projections are essential. Trends in population growth, composition, etc. give an idea of the country's future. Both quantitative and qualitative analyses are essential to understand the growth trend of the country.

The birth rate in India is so high that it is higher than what the economy can sustain at the existing level of development. This shows that since 1951 our population has more than tripled. It is the ever-growing numbers which have made our population a matter of serious concern. Planning for such a large population is a very hard task.

Education brings about a total change in the personality of an individual. If both the couples are educated the perception towards marriage and family is positive in nature and which helps the couple to plan the family. A few years of formal schooling bring a perceptible change in the reproductive behaviour. Thus, there is a causal relationship between education and fertility behaviour.

The growth of the Indian population has been a concern not only for our country, but for the whole world. Demographers all over the world have studied the patterns of growth of the Indian population and the consequences of this growth on the country.

Generally infants, children and old people are unproductive consumers. But in India, there are many other unproductive consumers like the unemployed, underemployed and seasonally employed persons. A growing population also affects the per capita income thus lowering the standard and quality of life.

On 11 May 2000, India's population reached 100 crore and it is estimated that if current trends of population increase continue she will become the most populous country in the world by 2045 when it would go beyond China. During the 20th century, India's population increased nearly 5 times from 23 crore to 100 crore, while during the same period world's population increased nearly 3 times from 200 crore to 600 crore.

The transport system helps to broaden the market for goods and by doing so, it makes possible large-scale production through division of labour. It is also essential for the movement of raw materials, fuel, and machinery to the places of production.

In order to meet the requirements of increasing traffic, work relating to expansion of the terminal building and apron was undertaken at Bangalore international airport.

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Government also gave 'in-principle' approval for setting up of a Greenfield airport at Karaikal in Puducherry and Shirdi in Maharashtra.The present Indian transport system comprises several modes including rail, road, coastal shipping, air transport, etc. Transport has recorded a substantial growth over the years both in terms of length and output of the system.

One of the most acute challenges that the Indian economy has been facing is the mounting rate of unemployment. It promotes poverty and inequalities, lowers social standards and is a huge loss of manpower resources to the nation. Unemployment is a chronic malady in India that deprives able bodied people to work on the current wages.

Unemployment is becoming a serious problem in India, though accurate estimate is difficult to obtain. About 7 million people are added to the labour force every year and the number is also increasing at faster rate. But on the contrary, the economy growth is not creating enough jobs.

2.13 Keywords

- **Occupational :** Connected with a person's job or profession.
- **Structure :** A thing that is made of several parts
- **Technological :** Scientific knowledge used in practical ways in industry
- **Incremental capital output ratio (ICOR):** It is a critical ratio that measures the amount of incremental capital needed to produce one incremental level of output. It is a key measure of capital productivity.
- **Capital stock:** Total amount of a firm's capital. All the shares that a company has and is officially allowed to sell.
- **Census:** A census is an official survey of the population of a country that is carried out in order to find out how many people live there and to obtain details of such things as people's ages and jobs.
- **Cyclical unemployment:** It is a factor of overall unemployment that relates to the regular ups and downs, or cyclical trends in growth and production, that occur within the business cycle.

2.14 Review Questions

1. What are the sources of Economic Growth?
2. What are the factors of source of economic growth?
3. Give the formula to calculate rate of growth or GDP.
4. Differentiate between human and physical capital.

5. Write a short note on private investments.
6. Briefly state the transition in capital investments since independence.
7. Describe the differences between personal income and disposable personal income.
8. Explain the meaning and concept of Gross National Product (GNP).
9. Discuss the various concepts of national income.
10. Analyse the role of gross national product in the performance of an economy.
11. Discuss the relationship between the gross and net national product and the gross and net domestic product.
12. Analyse the relationship between three macroeconomic variables of the gross national product (GNP, net national product (NNP) and national income (NI).
13. Discuss the role of migration in India's growing urban population.
14. Analyse the life expectancy and the distribution of population according to age and sex.
15. Discuss the role of various agencies involved in population estimates in India.
16. Enumerate the demographic scenario of population growth in India with reference to the past, present and the future.
17. Discuss in detail the causes of growing population in India.
18. Analyse some of the social factors responsible for high fertility rate in India.
19. Analyse and critically evaluate the role of national population policy in India.
20. Discuss the need of accelerating infrastructural development in India's transport system.
21. Analyse the major goals enunciated in the Ministry of Railways' Vision 2020.
22. Discuss the achievement of National Highway Development Projects.
23. Describe in detail the growth of transport in India.
24. Discuss the prevalence of poverty in India.
25. Analyse the difference between absolute poverty and relative poverty.
26. "The problem of unemployment and underemployment represents a challenge to the developing countries like India". Analyse this statement with relevant data.
27. Discuss some of the remedial measures to contain unemployment.
28. Analyse some of the poverty-alleviation programmes launched by successive governments in India.
29. Analyse and critically evaluate the efficacy of programmes initiated for the rural poor.

2.15 Further Readings

Notes

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UNIT–3

Economic Planning

Notes

(Structure)

3.1 Learning Objectives
3.2 Introduction
3.3 Objectives of Planning in India
3.4 Centralized Planning and Indicative Planning
3.5 Planning Commission in India
3.6 Objectives/Targets and Achievements of All FYP
3.7 Failures of Economic Plans
3.8 Understanding India's Economic
3.9 NITI Aayog
3.10 Summary
3.11 Keywords
3.12 Review Questions
3.13 Further Readings

3.1 Learning Objectives

After studying the chapter, students will be able to:

- Explain the relationship between planning and markets for growth and decentralized planning;
- List the reasons for India abandoning its centralized planning approach and liberalising its economy;
- Explain the composition of Planning Commission;
- Contribution from the twelve Five-year plans;
- Understand the need for reforming Indian economy;

- Explain the Government of India's position on the issue of privatization and globalization;
- Explain various forms of privatization:

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3.2 Introduction

In the previous unit, you studied about agricultural marketing and the various aspects of India's food policy. In this unit, you will learn about the various features of planning in India. Planning in our country is undertaken by the Planning Commission of India in order to improve the standard of living of the people belonging to the country. From a highly centralized planning system, the Indian economy is gradually moving towards indicative planning where Planning Commission concerns itself with the building of a long-term strategic vision of the future and decide on priorities of nation. This change started in 1991 when India decided to liberalise its economy. The unit will explore the reasons behind this change.

Today, the Planning Commission works out sectoral targets and provides promotional stimulus to the economy to grow in the desired direction. It plays an integrative role in the development of a holistic approach to the policy formulation in critical areas of human and economic development. In the social sector, schemes which require coordination and synthesis like rural health, drinking water, rural energy needs, literacy and environment protection have yet to be subjected to coordinated policy formulation. The current Five-Year Plan goes into these issues. Thus, we will end the unit with an exploration of the objectives and targets of the current plan.

After India gained independence in 1947 it basically had to rebuild its economy from scratch. The leaders of those times had to pick the type of economy India would be and also outline the economic planning as well. This is where the five year plan was born.

From 1947 to 2017, the planning on Indian economy was carried through the Five-Year Plans, developed, executed, and monitored by the Planning Commission between 1951-2014 and by the NITI Aayog from 2015-2017. With the prime minister as the exofficio chairman, the commission has a nominated deputy chairman, who holds the rank of a cabinet minister. Prior to the Fourth Plan, the allocation of state resources was based on schematic patterns rather than a transparent and objective mechanism, which led to the adoption of the Gadgil formula in 1969. Revised versions of the formula have been used since then to determine the allocation of central assistance for state plans.

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Every five year plan is developed with a specific goal in mind. But there is never one solitary objective of the plan. The plan is supposed to work towards the perspective plan and must cover a few important objectives. However, it is not possible or practical to give equal importance to all aspects of a plan. There are basically five generalized goals of a five year plan, wherein a particular plan one or two are given the most importance. In fact, some of the goals are actually conflicting with each other.

Our first Prime Minister Jawaharlal Nehru preferred the socialist model. But in democracy like India, a pure socialist economy cannot flourish. Capitalism was also not suited since the government had to build up an economy and look after the common man and his needs. So as a solution our economy combined aspects of both socialism and capitalism. The new government led by Narendra Modi, elected in 2014, has announced the dissolution of the Planning Commission, and its replacement by a think tank called the NITI Aayog (an acronym for National Institution for Transforming India). The 1st Five-year plan was for the period 1951-52 to 1955-56 and there has been 12 Five Year Plans. The last 5 year plan came to an end by 31st march 2017.

Amidst the grave balance of payment crises of 1990-91, the government of India headed by the then Prime Minister P.V. Narsimha Rao decided to give up the old economic policies. It decided to initiate far reaching reforms that would transform India from closed economy into a fairly open economy. Further policies were initiated so that there would be a gradual opening up of the economy linked to the world economy. The need for privatization i.e. the active participation of private sector in Indian economy has been felt since the mid-1980s. The main reason was that the functioning of various public sector undertakings (PSUs) were not satisfactory.

The aims of economic reforms have been to activate the forces for competition, efficiency and bring about dimensional changes in the relative role of the public and private sector. Now private sector is assigned larger role in accelerating industrial growth and is encouraged to participate in industries like power, telecommunication, petrochemicals and transport. To raise resources and ensure wider participation of private sector, disinvestment was done in PSUs in favour of mutual funds, financial institutions, workers and general public. All these exercises at the government level were related to the changing economic scenario, where privatization would certainly create an environment conducive for the induction of the latest technology and would unleash both entrepreneurship and innovation, which is expected to have a multiplier effect on other industries.

Needless to say, since beginning of economic reforms, liberalization and privatization, Indian economy made significant achievements in economic growth

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sustained improvement in balance of payments, foreign exchange reserves and overall development of the economy. However, reforms have not achieved the desired results. The reforms of PSUs have not gathered as much momentum as expected. Disinvestment has been piecemeal and the funds so raised are being used to reduce budget deficits rather than strengthen the PSUs. In addition, labour problems, political and bureaucratic interference have not been effectively used.

Moreover, many economists argue that the solution to industrial sickness in the public sector is privatization. But privatization is not the real solution as closing down PSUs will involve heavy financial as well as other costs it would be better if the management of ailing psus comes out with credible revival packages. Meanwhile, NITI (National Institution for Transforming India) Aayog had replaced the erstwhile planning commission in 2015. This is touted as the policy think tank of government of India and aims at achieving sustainable development goals and to enhance cooperative federalism by nurturing involvement of states in the economic policy-making process. This unit aims at taking appraisal of India's economic reforms which brought in structural changes and accelerated the growth of Indian economy.

3.3 Objectives of Planning in India

A planned economy is an economic system in which the economy is directed by the state. It is an economic system in which the central government controls industry by making major decisions regarding the production and distribution of goods and services. The two major types of planning are central or centralized planning and indicative planning. After the end of the British Raj, Independent India decided to follow a centralized planning approach to its development. In this regard the Planning Commission was set up.

India's first Prime Minister, Jawaharlal Nehru set up the Planning Commission with a Government of India resolution in March 1950. The Planning Commission was set up in pursuance of the declared objectives of the government, which was to promote a swift rise in the standard of living of the people by the efficient utilization of the resources of the country, increasing production and offering opportunities to all for employment in the service of the community. Nehru was the first chairman of the Planning Commission, a post that has been held by all subsequent prime ministers. The charge of the Planning Commission was to assess all the resources of the country, increasing deficient resources, formulating plans for the most effective and balanced utilization of resources and determining priorities.

Table provides you a summary of various five-year plans formulated and executed by the Planning Commission of India since its inception. In this section, we will focus on

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the 'Nehru-Mahalanobis' model in the five-year plans which represented the Nehruvian view of state-led development. The state-led development model was largely followed by India till 1991 when the balance of payment crisis and subsequent pressure from monetary agencies like the World Bank and the International Monetary Fund (IMF) made India liberalise its economy and abandon the centralized planning approach.

The 'Nehru-Mahalanobis' model was formulated by Prof. P. C. Mahalanobis under the guidance of Nehru. The 'Nehru-Mahalanobis Model' became the basis of the second five-year plan and continued to be guiding principle of all subsequent plans with small alterations until 1977 when the Janata Party came into power and conceived of the Gandhian model. The emphasis of the model was on the rapid development of heavy industry with the objective of creating an indigenous industrial base so as to make India even more self-reliant into heavy industries and-goods sector. The justification of the heavy industries strategies was stated in the framework of the second five-year plan because "in long run, the rate of industrialization and the growth of the national economy would depend upon the increasing production of coal, electricity, iron and steel, heavy machinery, heavy chemicals and heavy industries generally – which would increase the capacity for capital formation. One important aim is to make India independent as quickly as possible of foreign imports of producer goods so that the accumulation of capital would not be hampered by difficulties in securing supplies of essential producer goods from other countries. The heavy industry must, therefore, be expanded with all possible speed." The Nehru–Mahalanobis Model's justifications for greater emphasis on heavy industry were given as follows:

(i) The British colonial government intentionally denied the development of heavy industry in India and kept the country, primarily an agrarian economy, as an appendage of the British colonial system.

(ii) The Indian industrial structure was mainly dependent on the consumer goods industries. Therefore, it was necessary to broaden this base by developing heavy industries and infrastructure. The argument was made that a diversified industrial structure could absorb a huge population of labour and raise labour productivity. Such a situation would reduce the nation's dependence on agriculture as a provider of employment.

(iii) Since the productivity of labour was higher in manufacturing than in agriculture, a push towards industrialisation promised to bring about a swift increase in national and per capita income.

(iv) The rapid development of the industrial sector was not only critical for the development of agriculture, but also for the growth of all other sectors of the Indian economy.

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Although there was no denying the fact that foreign aid assisted in the development of capital goods and the infrastructure sector, the 'Nehru-Mahalanobis Model' stressed that the major burden of development would have to be borne by domestic savings. Since foreign aid would largely come in the form of loans, the model emphasised the growth of exports so as to pay for the bulk of imports by the increase in exports. The model was also conscious of the fact that enormous investments in heavy industry, although very important, would not increase employment significantly, since such investments were capital-intensive. Therefore, in order to generate employment and support the production of consumer goods, investment had to be made in small scale industries. The emphasis of enormous investment in heavy industry did not mean that the model did not give due importance to the role of agriculture for developing the Indian economy. Nehru recognised how critical agriculture was to the Indian economy stating, "We shall find that this industrial progress cannot be achieved without agricultural advances and progress... Everyone knows that unless we are self-sufficient in agriculture we cannot have the wherewithal to advance in industries. If we have to import food, then we are doomed so far as progress is concerned. We cannot import both food and machinery."

Indian Planning Since Independence

A summary of various Five-Year Plans in India has been provided in Table below:

Table : Summary of Five-Year Plans since Independence

Plan	Aspects
First Plan (1951–56)	• Based on the Harrod-Domar Model • Community Development Program launched in 1952 • Focus on agriculture, price stability, power and transport • Plan successful primarily because of good harvests in the final two years of the plan
Second Plan (1956–61)	• Also called the Nehru-Mahalanobis Plan • Focus on rapid industrialization • Advocated huge imports through foreign loans • Shifted the emphasis from agriculture to industry • Target Growth: 4.5 per cent • Actual Growth: 4.27 per cent • During this plan, prices increased by 30 per cent, against a decline of 13 per cent during the first plan

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Third Plan (1961–66)	• At the inception of the third plan, it was felt that the Indian economy had entered a take-off stage. Therefore, the aim of the plan was to make India a 'self-reliant' and 'self-generating' economy • Based on the experience of first two plans, agriculture was given top priority to support the exports and industry • Target Growth: 5.6 per cent • Actual Growth: 2.84 per cent • The plan failed completely in reaching targets due to the Chinese aggression of 1962, the India-Pakistan War if 1965 and a severe drought in 1965–66.
Annual Plans (1966–69)	The prevailing crisis in agriculture and a serious food shortage necessitated the emphasis on agriculture during the Annual Plans. During these plans a completely new agricultural strategy was implemented. It involved the wide-spread distribution of high-yielding varieties of seeds, extensive use of fertilizers, exploitation of irrigation potential and soil conservation.
	During the Annual Plans, the economy absorbed the shocks that were generated during the third plan The annual plans paved the path for the planned growth ahead
Fourth Plan (1969–74)	• The main emphasis of the plan was on growth rate of agriculture to enable other sectors to move forward • Target Growth: 5.7 per cent • Actual Growth: 3.30 per cent • The first two years of the plan saw record production. The last three years did not measure up due to poor monsoons • The influx of Bangladeshi refugees before and after the 1971 Indo-Pak war was an important issue
Fifth Plan (1974–79)	• D.D. Dhar prepared and launched the fifth five year plan • The two main objectives of the plan was 'Garibi Hatao' (removal of poverty) and the 'attainment of self reliance' • The promotion of a high rate of growth, better distribution of income and significant growth in the domestic rate of savings were seen as key instruments of the plan • The fifth plan was abruptly terminated in 1978 instead of 1979 after the Janata Party came to power at the centre.

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	• Target Growth: 4.4 per cent • Actual Growth: 3.8 per cent
Rolling Plan (1978–80)	• There were two sixth five-year plans. The Janata party government put forward a plan for 1978–1983. However, the government lasted for only two years. The Congress returned to power in 1980 and launched a different plan
Sixth Plan (1980–85)	• The Congress government's sixth five-year-plan focused on increasing national income, modernising technology, ensuring the continuous decrease in poverty and unemployment, population control through family planning, etc • Target Growth: 5.2 per cent • Actual Growth: 5.66 per cent
Seventh Plan (1985–90)	• The focus of the seventh plan was the rapid growth in foodgrains production, increased employment opportunities and productivity within the framework of the basic tenants of planning
	• The plan was very successful with the economy recording 6 per cent growth rate against the targeted 5 per cent • Target Growth: 5.0 per cent • Actual Growth: 6.01 per cent
Eighth Plan (1992–97)	• The eighth plan was postponed by two years because of political uncertainty at the Centre • The Balance of Payment crisis and inflation during 1990–91 were the key issues during the launch of the plan • The plan undertook drastic 'structural adjustment policies' enforced by the World Bank to combat the bad economic situation and to undertake an annual average growth of 5.6 per cent • Some of the main economic outcomes during the eighth plan period were rapid economic growth, high growth of the agriculture and allied sector the manufacturing sector, the growth in exports and imports, improvements in trade and the current account deficit
Ninth Plan (1997–2002)	• The ninth five year plan was developed in the context of four important dimensions. The dimensions were quality of life, generation of productive employment, regional balance and selfreliance • Target Growth: 6.5 per cent • Actual Growth: 5.35 per cent

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Tenth Plan (2002–2007)	• The objective of the tenth five year plan was to achieve 8 per cent GDP growth rate, reduce poverty by five percentage points by 2007, provide universal primary healthcare by 2007, and to provide sustained drinking water to all villages by 2012. • The plan also aimed at providing high quality gainful employment to the labour force over the plan period and aimed at increasing literacy rate to 72 per cent within the plan period and to 80 per cent by 2012 • Target growth:8.1 per cent • Growth achieved:7.7 per cent
Eleventh Plan (2007–2012)	• Accelerate GDP growth from 8% to 10 per cent, increase agricultural GDP growth rate to 4 per cent per year, create 70 million new work opportunities and reduce educated unemployment to below 5 per cent • Raise real wage rate of unskilled workers by 20 per cent • Reduce dropout rates of children from elementary school from 52.2 per cent in 2003–04 to 20 per cent by 2011–12 and increase literacy rate for persons of age 7 years or above to 85 per cent • Lower gender gap in literacy to 10 percentage point and increase the percentage of each cohort going to higher education from the present 10 per cent to 15 per cent • Reduce infant mortality rate to 28 and maternal mortality ratio to 1 per 1000 live births • Reduce Total Fertility Rate to 2.1 • Attain WHO standards of air quality in all major cities by 2011–12 • Provide clean drinking water for all by 2009 • Increase forest and tree cover by 5 percentage points • Reduce malnutrition among children between 0–3 years to half its present level and reduce anaemia among women and girls by 50 per cent • Raise the sex ratio for age group 0–6 to 935 by 2011–12 and to 950 by 2016–17 • Ensure that at least 33 per cent of the direct and indirect beneficiaries of all government schemes are women and girl children • Ensure all-weather road connection to all habitation with population 1000 and above (500 in hilly and tribal areas) by 2009, and ensure coverage of all significant habitation by 2015

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	• Treat all urban waste water by 2011–12 to clean river waters • Connect every village by telephone by November 2007 and provide broadband connectivity to all villages by 2012 • Increase energy efficiency by 20 percentage points by 2016–17

The 12th Five Year Plan (2012-2017)

Rather than project a single average growth rate over the five-year period, the Twelfth Five Year Plan (2012-17) envisaged three scenarios termed as 'strong inclusive growth', 'insufficient action' and 'policy logjam'. The aim of the 12th Five Year Plan was faster more inclusive and sustainable growth. The Plan pegged the average annual growth rate of the Gross Domestic Product (GDP) under the three scenarios at 8 per cent, 6 to 6.5 per cent and 5 to 5.5 per cent, respectively.

The Twelfth Plan document stated that the objective of 8 per cent annual average growth of GDP can be achieved provided policies that take care of weaknesses in the system are put in place. To emphasize the role of policies, alternative scenarios were presented in the Plan. Scenario one is called 'Strong Inclusive Growth' and presents what is possible if well-designed strategy is implemented, intervening at key leverage points through the numerous policy actions. The Twelfth Plan targeted growth rates of 4.0 per cent for agriculture, 7.6 per cent for industry and 9.0 per cent for services, thereby aiming at 8.0 per cent growth in overall GDP.

There were three important revisions to the calculation of GDP in this period: (i) The base year has been changed from 2004-05 to 2011-12; (ii) more reliable data sources are used for the corporate, finance corporations and autonomous institutions and (iii) GDP is now calculated at market prices (broadly equivalent to consumer prices) instead of factor costs (broadly equivalent to producer prices). Because the GDP had been estimated under the old methodology only up to the year 2013-14, we have the growth rates associated with both the old and new methodology for years 2012-13 and 2013-14 only. When measured at factor cost, the real GDP growth under the old methodology turns out to be 4.5 per cent in 2012-13 and 4.7 per cent in 2013-14. Because the Twelfth Plan projections were based on the old series, it may be reasonably concluded that at least in 2012-13 and 2013-14, India has performed worse than the 'policy logjam' scenario.

While the growth in industrial sector improved significantly over the years, the rate of growth of GVA in Agriculture, forestry & fishing and Services showed mixed trends. Increasing large share for services in total output at a relatively early stage of development is not typical and a matter of concern as, in India, the structural shift from agriculture

to services is actually bypassing the industrial sector. The Twelfth Five Year Plan is the last Five Year Plan. The Planning Commission was replaced by the NITI Aayog.

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Niti Aayog

The Government of India, in keeping with its reform agenda, constituted the NITI Aayog to replace the Planning Commission instituted in 1950. This was done in order to better serve the needs and aspirations of the people of India. An important evolutionary change from the past, NITI Aayog acts as the quintessential platform of the Government of India to bring States to act together in national interest, and thereby fosters Cooperative Federalism. The National Institution for Transforming India, also called NITI Aayog, was formed via a resolution of the Union Cabinet on January 1, 2015.

At the core of NITI Aayog's creation are two hubs – Team India Hub and the Knowledge and Innovation Hub. The Team India Hub leads the engagement of states with the Central government, while the Knowledge and Innovation Hub builds NITI's think-tank capabilities. These hubs reflect the two key tasks of the Aayog.

Instead of the Five Year Plans, NITI Aayog has been tasked with preparing the following documents:

(i) A vision document keeping in view the social goals set and/or proposed for a period of 15years;

(ii) A 7-year strategy document spanning 2017-18 to 2023-24 to convert the longer-term vision into implementable policy and action as a part of a 'National Development Agenda'; and

(iii) A 3-year Action document for 2017-18 to 2019-20 aligned to the predictability of financial resources during the 14th Finance Commission Award period. This is also to help translate into actions the goals of the government to be achieved by 2019.

The decision to discontinue Five Year Plans has also meant that the distinction between plan and non-plan expenditures conventionally made will no longer be made in the future Budgets beginning 2017-18. This is a suggestion that has long been made by economists. The principal distinction will now be between revenue and capital expenditures.

3.4 Centralized Planning and Indicative Planning

Centralized Planning and the Role of Government

Under centralized planning, central authority or the government is authorized to take all the economic decisions. The government is endowed with the power to formulate

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economic plans, determine objectives, and set targets and priorities. It is the duty of every member to simply carry out the instructions without questioning about its feasibility. However, as the individuals are not allowed to carry out the plans in accordance to their needs and preferences, there are more chances of failure. The government is the one who takes responsibility of the success or failure of the plan. It is the government who takes all the decisions of consumption, production, wages and prices. Other significant decisions which the government has to take are:

- What amount of investment is to be made?
- What should be the price?
- What should be the output?
- How are the products to be distributed?
- How much amount of loans is to be granted?
- What should be the rate of interest?

Centralized planning is mostly executed in socialist or communist countries.

Indicative Planning

Planning initiated by encouragement is often referred to as 'indicative planning' or 'market incentives'. In such type of planning, incentives and inducements influence the market. Therefore, in this system, there is persuasion rather than compulsion or intentional enforcement of orders. Here, the consumers have the liberty to consume whatsoever they like and producers have the freedom to produce whatever they wish. However, such liberty of consumption and production are subject to certain controls and regulations. Various fiscal and monetary devices play a vital role in stimulating the consumers, producers and other factors of production. For example, if the planning authority wants to increase the production of corn oil in Pakistan, it will provide subsidies, tax holidays and loans to the organizations who are concerned with corn oil production. A suitable package of fiscal and monetary policies can be introduced in the market to encourage savings and investment and discourage consumption. Therefore, the desirable results can be attained with the help of incentives and without imposing orders and instructions. Moreover, such planning involves less sacrifice and less loss of liberty – economic as well as non-economic.

Components of or Approaches to Indicative Planning

Indicative planning involves three components or approaches:

1. **Forecasting approach:** Under this approach, information is given to individuals by making certain forecasts. Such forecasting helps towards a better decision

making. The forecasting indicates about the feasible future, with specifications on a desirable future in terms of growth rate of the economy.

2. **Policy approach:** This approach enables the contradictory policies of government departments to co-ordinate within a logical model framework, keeping in view the set objectives. When once the policies are co-ordinated, they will provide guidelines to the people, consumers and producers.

3. **Corporate approach:** This approach is practised in France. Here, the coordination function of indicative planning envisages at two levels. In the first place, it requires co-ordination of the behaviour of economic groups like business enterprises and trade unions, etc., which hold power in the market. In the second place, this approach coordinates the relation between private and public activities.

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Liberalizing the Indian Economy

The restructuring of the Indian economy in the 1990s was an outcome of the unprecedented economic crisis that occurred in the nation in 1991. This economic crisis was the balance of payment crisis. The crisis of 1991 was a complex external payments crisis with high fiscal and current account deficits, external borrowing to finance the deficits, rising debt service obligations, rising inflation and inadequate exchange rate adjustment. According to Bakul Dholakia, the major elements of the economic crisis were the deepening foreign exchange crisis; growing fiscal imbalances, increasing rate of inflation, the slackening of overall economic growth and the deceleration in industrial growth. The immediate causes of the crisis were the Gulf crisis and the global recession. However, the root cause of the crisis was the structure of the Indian economy itself.

Let us discuss some key factors that led to the severe economic crisis in 1991:

- There was a sharp decline in foreign exchange reserves from the level of ₹8,151 crores in March 1987 to ₹1,877 crores in early January 1991. While the standby IMF loan of 3,275 crores in the third week of January 1991 temporarily boosted our foreign exchange reserves, the declining trend in the foreign exchange reserves continued unabated during the subsequent period. Thus, the country's foreign exchange reserves dropped to the lowest level ever of ₹1,877 crores, which was barely enough to finance the country's imports for 13 days.
- Although the country always had a sizeable trade deficit during the 1980s, the level of trade deficit increased sharply during 1990-91 to cross the ₹10,000 crore mark for the first time in Indian economic history. Thus, the average level of

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trade deficit which used to be around ₹650 crores per month during 1988-89, it increased to around ₹900 crores per month in 1989-90.

- There was a significant deterioration in India's credit rating. Standard and Poor (S&P) reduced India's credit rating to the speculative grade. Similarly, the Japanese Bond Research Institute (JBRI) and Moody's Investors' Service lowered India's credit rating to the lowest level in the investment grade. This led to a decline in the availability of short-term credit even on relatively more stringent terms and conditions, thereby further accentuating the problem of financing the country's monthly import requirements.
- A high degree of fiscal imbalance emerged as another major problem facing the Indian economy especially after 1986. The latter half of the eighties had been marked not only by high and growing budget deficits, but also by attempts on the part of the government to create a surplus in the capital account to finance its revenue deficit. This unhealthy tendency of borrowing money to finance current consumption expenditure of the government reached an alarming proportion in 1990-91 when the revised estimates of revenue deficit turned out to be 17,585 crores, while the overall budget deficit was reported to be 10,772 crores, indicating a net surplus of 6,813 crores on capital account. Moreover, the fiscal deficit, which represents the actual difference between aggregate government expenditure and current revenue reached the highest ever level of 43,331 crores in 1990-91. Thus, in the year 1990-91, nearly two-fifths of the revenue deficit had been financed by capital account surplus and the size of overall fiscal deficit has turned out to be as high as 8.6 per cent of GDP.
- The other major problems faced by the Indian economy especially during the years of the economic crisis were declining growth rates of GDP as well as industrial production and a rising rate of inflation. The Indian economy grew at an average rate of 5.5 per cent per annum during the period 1980 to 1989 as against the average rate of 3.5 per cent per annum during the previous three decades. However, the growth rate of GDP declined to 5.3 per cent in 1990-91 and to 14 per cent in 1991-92.
- Similarly, the growth rate of industrial production also declined from 8.8 per cent in 1988-89 to around 7.5 per cent in 1990-91. Moreover, while the average rate of inflation during the period 1980 to 1989 was around 6.4 per cent per annum, this increased sharply to 11.3 per cent during 1990-91.

- The cost of petroleum imports in 1990-1991 increased by half to US $5.7 billion due to the crisis in the gulf in August 1990. The Gulf crisis in August 1990 also exposed the Middle East's strategic relevance for India. Along with the rising cost of petrol, the government also had to bear the additional weight of airlifting and rehabilitating 112,000 Indian workers from the Middle East. Remittances from the Middle East also declined because of the crisis in the gulf.
- The recession that was hitting the entire world during the time also contributed to deepening the economic crisis in India. World growth had come down to just 2.25 per cent in 1991 from 4.5 per cent in 1988. The growth of exports to the United States, which was India's largest market, turned negative in 1991. The conditions in the Soviet Union which was another major export destination for the country had also worsened. As a result, in 1990–1991, India's exports only grew by 4 per cent.
- Finally, during the period of 1990–1991, India was also going through a period of political instability, which added fuel to the economic crisis. The fragile National Front coalition led by V.P. Singh collapsed when the BJP withdrew its support. A new minority government led by Chandra Shekhar failed to pass the scheduled budget in February 1991 when it lost the Congress Party's external support. In May 1991, while campaigning for the general elections, former Prime Minister Rajiv Gandhi was assassinated.

3.5 Planning Commission in India

The Planning commission of India was set up in march 1950 by a resolution of the GOI, under the chairmanship of Jawaharlal Nehru.

Since the necessity of forming a coordinating agency between the planning commission and states was required, National Development Council (NDC) was set up by GOI on 6th august, 1952.

The planning commission was only an advisory body entrusted with preparation of the plan and not responsible for execution of development programmes.

The execution of planning programmes has been entrusted with central and state governments.

Thus, every planning decisions in India originates from the planning commission and finally being approved by the NDC.

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Administration:

The planning commission is composed of 8members

1. The Prime Minister (Chairman)
2. 4 full time members (including deputy chairman)
3. Minister of Planning
4. Minister of Finance
5. Minister of Defence

Plan	Period
1st FYP	1951-52 to 1955-56
2nd FYP	1956-57 to 1960-61
3RD FYP	1961-62 to 1965-66
Annual Plan	1966-67 to 1968-69
4th FYP	1969-70 to 1973-74
5th FYP	1974-75 to 1977-78
6th FYP	1978-83 and 1980-85
7th FYP	1985-86 to 1989-90
Annual Plan	1990-92
8th FYP	1992-93 to 1996-97
9th FYP	1997-98 to 2001-02
10th FYP	2002-03 to 2006-07
11th FYP	2007-08 to 2011-12
12th FYP	2012-13 to 2016-17

3.6 Objectives/Targets and Achievements of All FYP

First Five-YearPlan: (1951-52 to 1955-56)

Prior to first five-year plan, Indian economy was in a bad shape. Population increase was more as compared to economic growth. The situation of trade and industries was far from satisfaction. The rate of capital formation was at low level. The per capita income in the country was also very low.

Achievements

1. **Increase in National Income:** The First Five Year sustained the hope of the planners by making headway in achieving its targets and ambitious objectives to a larger extent. The national income rose from ₹ 9110 crores to ₹ 10800 crores from 1950- 51 to 1956-57 at the price level of 1953-54.

The per capita income increased by 11 per cent and per capita consumption by 8 per cent over the same period. The net domestic saving was ₹ 756 crore in 1955-56 against ₹ 455 crore in 1950-51.

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2. **Agricultural Development:** In the field of agriculture, total food-grains were 69.3 million tonnes against the target of 62.6 million tonnes. The index number of agricultural production for all crops increased from 26 to 117 during the period of 1950-51 to 1955-56 (1949-50 = 100). During this period, the import of foodstuffs led to a drastic reduction.

   In 1954, only 0.8 million tons of food-grains valued at ₹ 47.02 crore was imported as compared to 4.7 million tonnes at a total value of ₹ 216 crore in 1951. The production of some major crops like rice, wheat and cotton was recorded to be 28.7 million tonnes, 8.9 million tonnes and 4.2 million bales against its targets of 27.7 million tonnes, 3.4 million tonnes and 4.8 million bales respectively.

3. **Industrial Production:** Industrial production has recorded the increase to the extent of 38 per cent. Total gross investment in fixed capital in the private sector was about ₹ 340 crore.

   The progress of production and expansion of capacity was satisfactory in the case of Sindri Fertilizer Factory, Chittaranjan Locomotive Factory, Indian Telephone Industries, Integral Coach Factory, Cable Factory and Pencillin Factory. A new plant of iron and steel was set with a capacity of 35000 tons of pig iron.

4. **Irrigation and Railway Development:** Irrigation facilities were extended to 16 million acres of land. Out of it, 10 million acres through small works and 6 million through major works. The work on a number of multipurpose river projects like Bhakra Nangal, Damodar Valley and Hirakund was accelerated and many more new projects were started on Kosi Koyna, Rihand and Chambal.

   In rail transport, the traffic carried between 1951-52 to 1955-56 in terms of tones originating increased by about 8 per cent. All the commencement of the plan, Indian Railways has 8209 locomotives, 19225 coaches and 222441 wagons on the line which increased to 9262 locomotives 23779 coaches and 266049 wagons by ending 1955-56.

5. **Education:** The percentage of facilities of schooling for children in the age group of 6-11 was 42.0 per cent which rose to 51.0 per cent from 1950-51 to 1955-56. There were 209671 primary and 7288 high/higher secondary schools in 1950-51 which increased to 274038 and 106000 in 1955-56 respectively.

The number of training institutions for basic education was recorded 449 in 1955-56 against its number 114 in 1950-51. There were 8600 medical institutions with 113000 beds in 1950- 51. There were 8600 medical institutions with 113000 beds in 1950-51 which increased to 10000 with 125000 beds during 1955-56.

6. **Balance of Payment:** The balance of payment position was quite satisfactory. In the original plan estimates, an average annual deficit of ₹ 180 to 220 crore was visualised but the actual expenditure was of amounting ₹ 96 crore. So far as sterling balance was concerned the withdrawal was of only ₹ 138 crore against ₹ 290 crore.

7. **Miscellaneous Achievements:** A significant achievement during the plan period was of launching Community Development and National Extension Services programme on 2nd October, 1952. This programme covered 78 million persons in 143000 villages situated in 1075 development blocks ending 1955- 56.

   The number of co-operative societies rose from 180000 to 240000 and the number of members from 13.72 to 17.62 million, 53000 new agricultural credit societies were registered with total number of members 1.60 lakhs, 44 extension training centres were established.

Second Five Year Plan: 1956-57 to 1960-61

The second period of second five year plan was April 1, 1956 to May 31, 1961. The main purpose of the plan was to establish 'socialistic pattern of society.

Objectives:

The main objectives of the Second Five Year Plan are as under:

(i) Sizeable increase in the national income to raise the level of living.

(ii) Rapid industrialisation with special emphasis on the development of basic and heavy industries;

(iii) Large expansion of employment opportunities;

(iv) Reduction of inequalities in income and wealth and a more even distribution of economic power.

Achievements:

1. **Foreign Exchange:** The plan witnessed a severe drain on the foreign exchange resources of the country. The reserves were drawn by about ₹ 540 crore during the period of 1955-56 to 1959-60 which was due to the large trade deficits. In 1959-60, India's external payment position continued to reflect this very trend with the foreign exchange reserves declining by ₹ 16 crore.

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2. **Agricultural Development:** In the case of agriculture, the index number rose to 135 in 1960-61 from 116.8 in 195-56. The production was recorded 760 million tonnes in 1960-61 against 658 million tonnes in 1955-56. The overall increase was 16 per cent.

   The total area under food grain crops was 113.4 million acres in 1960- 61 while it was 105.3 million acres during 1955-56. The rate of growth in agriculture sector was 44.6 per cent in 1956-57 and 6.5 per cent in 1960-61.

3. **Power Programmes:** The power programmes suffered a setback because of foreign exchange hardships. Even then, total number of villages/towns electrified in the country was 21396 ending March 1960. About 16000 kilometres of transmission lines with operating voltage about 33 KV were erected during the plan period.

4. **Industrial Development:** The tempo of industrial advancement gathered momentum during the second plan period. The country for the first item started producing large quantities of machinery, machine tools, heavy electrical equipment's and scientific instruments. Furthermore, opening was made in the field of tractors, newsprint, motor-cycles, scooters, sulpha, DDT, Dyestuffs.

   Similarly, rapid progress was acknowledged in the case of durable consumer goods such as sewing machines, bicycles, fans, radios and other electric goods.

   The discovery of petroleum reserves in the Sibsagar area of Assam and in the Bombay. Ankleshwar area of Gujarat was another vent in this plan. The index of industrial production (1950-51 =100) rose by forty per cent. The production of steel ingots was 3.5 million tones and of finished steel 2.2 million tonnes. In coal, the production was registered to be 54.6 million tonnes.

5. **General Development:** The programmes for railway and ports were carried out substantially. In 1960-61, the railway carried a freight of 154 million tonnes. There were 1813 locomotives. 6091 coaching vehicles and 85526 wagons during 1959-60. During 1959-60, 105 miles of missing links and bypasses and 10 major bridges were constructed. Number of passenger vehicles increased from 44744 to about 46000 ending 1959-60.

   In the field of education, additional schooling facilities at elementary stage were provided to about 2 lakh children ending March, 1961. The centrally sponsored scheme for the expansion of girl education and training of women teachers was implemented by almost all states.

The total numbers of primary health units were recorded 2500 ending March, 1960. The strength of doctors increased from 7000 to 68,000 during the same period.

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Third Five Year Plan:(1961-62 to 1965-66)

The Third Five Year Plan was a continuation of the previous plan designed to provide India a self-generating and self-reliance economy by 1975-76.

However, it aimed at:

1. To secure an increase in national income of over 5 per cent per annum, the pattern of investment being designed so as to sustain this rate of growth during the subsequent plans;
2. To achieve self-sufficiency in food-grains and increase agricultural production to meet the requirement of industry and exports;
3. To expand the basic industries such as steel, chemical industries, power and also establish machine building capacity so that the requirements of further industrialisation can be met within a period of ten years or so mainly from the country's own resources;
4. To utilise to the fullest possible extent the manpower resources of the country and to ensure a substantial expansion in employment opportunities;
5. To establish progressively greater equality of opportunity and to bring about reduction in disparities in income and wealth and a more even distribution of economic power.

Achievements:

1. **National Income:** The rate of growth of national income was less than half of the rate 5 per cent per annum. In 1964-65, it was registered to the tune of 2.5, 1.7 and 4.9 per cent respectively. In 1965-66, it declined to 4.2 per cent.
2. **Agricultural and Power Development:** In agriculture sector, there was stagnation during the first three years while in 1964- 65, there was bumper record and again in the year of 1965-66 its production declined to unprecedented floods and droughts. As a whole, agricultural production went down by 7.4 per cent.

   The output of food-grains was about 76 million tonnes against its target of 100 million tonnes. The aggregate index of production was 159.4 in 1964-65 considering 1949-50 = 100.

The average growth rate of generating capacity was 12.5 per cent during 1965-66 while installed generating capacity was 10.17 million KW in the same year against installed generating capacity of 5.65 million KW at the beginning of 1960-61.

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3. **Industrial Development:** The increase in industrial output considering 1960 as base year stood at 8.2 per cent in 1961-62, 9.6 per cent in 1962-63, 9.2 per cent in 1963-64 and 8.3 per cent in 1964.65.

   Thereafter, there was sharp deterioration in the rate of growth of output. It fell to 4.3 per cent in 1965-66.

   The production in the case of iron ore, diesel engines, cloth textile, machinery and soda ash were registered to the extent of 24.46 million tonnes, 93.1 thousand, 200 million rupees and 33.1 tones, respectively ending 1965-66. While it was 11 million tonnes, 44.7 thousand, 104 million rupees and 152 tonnes at the start of the plan period.

4. **Village and Small-Scale Industries:** The progress of village and small scale industries was also encouraging during the first two years and later on showed downward trend due to shortage of raw materials followed by hostilities of 1962 and 1965. The production of handloom and power-loom increased from 2013 million metres in 1960 to 3056 million in 1965-66.

   The total share in production of cloth was 30.4 per cent in 1960 while it rose to 40.0 per cent in 1965-66. The production of all varieties of Khadi including woollen and silk increased from 53.76 million sq. metres in 1960-61 to 84.85 million sq. metres in 1965-66. The industry provided employment to nearly 2 million persons.

5. **Transport Development:** The total length of railway route rose from 56247 kms. to 59399 kms, passengers originating from 1594 million to 2082 million over the plan period. Commercial vehicles increased from 225 thousand to 333 thousand over the same period.

   In coastal and overseas shipping, in 1965-66, its number was recorded 1540 and 323 thousand GRT while it was 857 and 313 thousand GRT respectively in 1960-61. On the other hand, the capacity of Indian Airlines was 155 million tonnes kms, in 1965-66 against its number of 113 million tonnes kms in 1961-62.

6. **Education:** In the sphere of elementary education age group of 6-14, there was 48.7 per cent in 1961-62 which increased to 59.6 per cent in 1965-66. The

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total enrolment of 0.03 million in secondary education rose to 5.19 million over the same period. This was 16.7 per cent in 1965-66 against 11.1 per cent in 1960-61. The enrolment in science courses percentage of total enrolment increased from 25.7 million to 41.5 million during the period from 1961-62 to 1965-66.

Fourth Five Year Plan:(1969-70 to 1973-74)

The Fourth Five Year Plan should ordinarily have commenced in 1966 on the expiry of the Third Five Year Plan. The necessary preparatory work had already been undertaken but its finalisation was delayed due to severe threats like hostilities of 1962 and 1965 and the steep fall in agricultural production over two successive years 1965-66 and 1966-67, and devaluation of Indian Rupee in June 1966.

The Planning Commission which was reconstituted in September 1967, felt that the five year period of the Fourth Plan should commence from 1969 and the year of 1968-69 should have an annual plan as of 1966-67 and 1967- 68. Therefore, the document of the Fourth Plan for 1969-74, reaffirmed the objective enunciated in the previous plans and included the policies and programmes which would promote the attainment of self-reliance with adequate growth rate and accelerate the progress towards a socialist society.

Objectives:

Fourth Five Year Plan have following objectives:

1. Feasible rates of growth as indicated in the direction of becoming free from dependence on foreign aid by providing priority to increase agricultural and industrial sector;
2. Measures to maintain stability in the prices and to set up consistent economic policies which would lead towards the goal of mixed economy;
3. Priority would be given to enlarge the income of the rural population and augment the supply of food. Efforts would be made to maximise the production.
4. For ensuring continued growth in various industries like machinery, chemicals, mines, power and transport which are useful for self-reliance, connected schemes would be expedited for keeping up the momentum already built and making the basic needs of the country in the next five year plan period;
5. For the development of human resources, additional facilities would be provided particularly in rural areas.

Achievements:

1. **National Income and Balance of Payment:** The plan envisaged an average

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annual compound growth rate of 5.7 per cent. Against this projected growth, the economy experienced a rate of growth of 5.2 per cent in 1969-70, 4.2 per cent in 1970-71, 1.7 per cent in 1971-72, and 0.6 per cent in 1972-73. The rate of domestic saving rose from 8.4 per cent to 13.6 per cent during the plan period and the rate of investment from 9.5 per cent to 14.4 per cent over the same period.

During the first three years of the Fourth Plan, the balance of payment was fairly stable but in the later period, all was not well in the economy. The drought of 1972-73 compelled the country to go in for large imports of food-grains when the world prices of food-grains had gone up to unprecedented levels.

The import prices of other major requirements such as petroleum, petroleum products, fertiliser, iron, steel, non-ferrous metals and newsprint also increased manifold.

2. **Agriculture Production:** The production of food-grains was estimated to rise from 98 million tonnes to 129 million tonnes but it was registered only 104.7 million tonnes in 1973-74; thereby the increase was of 7.2 per cent against its targeted increase of 31.6 per cent. The highest level of production was 108 million tonnes in 1970-71. The output of pulses had deteriorated in spite of favourable price trend.

   As against the target of 15.0 million tonnes, the production was hardly 10.0 million tonnes in 1973-74. The total area of food crops under irrigation was 35.2 million hectares whereas non-food crops under irrigation was recorded 4.8 million hectares in 1973- 74.

   The chemical fertilizers in terms of nitrogenous and phosphatic was recorded 10.58 lakh and 4.1 lakh tones respectively ending 1973-74. The ultimate irrigation potential of 107 million hectares, a potential of 44.9 million hectares was recorded in 1973-74.

3. **Industrial Development:** The rate of growth in the industrial sector was only 3.9 per cent annual. The industrial production growth rate declined from 6.8 per cent in 1969-70 to 3.7 per cent in 1970-71 but it increased to 4.5 per cent in 1971-72 and at around 5 per cent during 1972-73-74. The production of steel ingot was 7.4 million tonnes against 10.8 million tonnes; finished steel was of 5.4 million tonnes against 8.1 million tonnes; cotton textile machinery of ₹ 300 million against ₹ 450 million; petroleum of 7.7 million tonnes against 8.5 million tonnes

4. **General Development:** In social welfare activities, substantial progress was

achieved. The number of primary health centres and sub-centres rose to 5250 and 33000 by the end of 1973-74 against its number of 4919 and 22826 respectively in 1968- 69. Similarly, the number of doctors and nurses also increased from 102520 and 61000 to 138000 and 88000 in the same period.

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Fifth Five Year Plan (1974-75 to 1977-78)

During the course of presentation of the draft the Fifth Five Year Plan, unfortunately it coincided with a major upheaval on the international economic scene,which largely affected the developed and developing countries. Political leaders and economists all over the world were aware of this collapse.

The sharp increase in the prices of food, fertilizers and oil seriously upset the assumption on which draft had been framed. Mrs. Indira Gandhi, while addressing the news conference warned against the economic challenges and hoped that "the people will face these problems with unity and in a spirit of co-operation."

Defending the Government's attitude towards these hardships, she said, "Many things are not foreseen. It is always possible to have hindsight. The poor people have faced the challenges with a stout heart. But for the public distribution system these people would not have got even their rations."

In the meanwhile on the implementation of the Plan, Dr. Minhas resigned. Thus, putting aside his argument, Mrs. Gandhi and Planning Minister Mr. Dhar called for small plan and sacrificing the industrial core, jeopardies self-reliance and unrealistic projections.

Objectives:

1. 5.5 per cent overall rate of growth of 'gross domestic product;
2. Expansion of productive employment;
3. A national programme for minimum needs;
4. Extended programme of social welfare;
5. Stress on agriculture, key and basic industries producing goods for mass consumption.

Achievements:

1. **National Income:** Though the Fifth Five Year Plan was suspended one year earlier than its tenure, even then, its progress could be considered fairly satisfactory and be compared with the complete period of five years. The growth rate of national income ending fifth plan period was 5.4 per cent at the price index of 1970-71. The average growth rate of per capita income was 2.92 per cent due to high growth of population.

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2. **Agricultural and Social Sector:** The agricultural production showed tremendous favourable trends. The annual rate of growth of agricultural production grew at the rate of 4.58 per cent against its target rate of 3.3 per cent. The total food-grains production was of the order of 125.6 million tonnes in 1978-79 while oilseed was registered of 8.9 million tonnes. The gross irrigated area was recorded 48.41 million hectares during the same period.

   The total coverage under soil and water conservation was 21.7 million hectares in 1977-78 About 78000 Gober Gas Plants were installed by the end of plan period. Agricultural Cooperative Credit Societies advanced ₹ 1626 crore which contained ₹ 1340 crore for short term, ₹ 95 crore for medium and long term and ₹ 291 crore for land development respectively. The storage capacity available for food-grains was about 14 million tonnes ending 1977.78.

3. **Industrial Development:** During the plan period of 1974-79, village and small industries registered a growth rate of 6.8 per cent per annum. The gross value added at factor cost rose from ₹ 2800 crore in 1973-74 to ₹ 4100 crore in 1979-80 (at price of 1970-71) registering a growth rate of 6.6 per cent per annum. The employment has increased in Village and Khadi industries from 8.84 lakh and 9.27 lakh in 1973-74 to 11.24 lakh in 1979-80.

   The growth rate of industrial production was around 6.2 per cent. The production of coal, crude oil and iron ore was recorded to the tune of 104 million tonnes, 11.77 million tonnes and 39 million tonnes respectively in 1978-79.

4. **General Development:** The traffic by railway in terms of tone kilometres gone up from about 122.4 billion net ton kilometres in 1973-74 to 162.7 billion net tone's kilometres in 1977-78. 5549 kms. of new national highways were added during the plan period and total surfaced road length was 623402 kms ending March 1979.

   During the period of 1974-80, 20259 post offices were opened, raising its number to 1.3 lakh. Besides, 11970 telegraphic offices and 8825 long distance public call offices were opened. The total enrolment in elementary education has been recorded 905 lakh during the plan period. About 1.84 lakh villages had been benefited from water supply schemes.

Sixth Five Year Plan: (1978-83 and 1980-85)

In the Sixth Five Year Plan (1978-83) (envisaged during the Janata Government at

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Centre); the National Development council discussed the document Draft Plan 1978-83 under the chairmanship of the Prime Minister of March 18/19, 1978 and approved the programme such as removal of unemployment, reduction in poverty and inequalities and the continues progress towards self- reliance.

This clearly showed a clear cut shift in the strategy of planning. For the first time, Planning Commission acknowledged the denial of Social justice to the poorest sections of population.

Draft Five Year Plan 1978-83 stated, 'what matters is not the precise rate of increase in the national product that is achieved in five or ten years but whether we can ensure within specified time frame a measurable increase in the welfare of the millions of the poor.'

Therefore, Mahala Nobis strategy of heavy industry development was condemned. With its revised priorities, the Janata Government Strategy favoured Gandhian solution which stressed for the development of cottage and small industries based on labour-intensive techniques. Another significant change was noticed in the field of industrial development i.e. liberalising the economy by making extension in the area of private sector and liberal imports.

Objectives:

1. Promotion of efficiency in the use of resources and improved productively;
2. 'Strengthening the impulses of modernisation for the achievement of economic and technological self-reliance;
3. A progressive reduction in the incidence of poverty and unemployment;
4. A speedy development of indigenous sources of energies;
5. Improving the quality of life of the people in general with special reference to the economically and socially handicapped population;
6. Strengthening the distribution bias of public policies and services in favour of weaker sections of society;
7. A progressive reduction in regional inequalities;
8. Promoting policies for controlling the growth of population through voluntary acceptance of the small family norm;.

Achievements:

1. **Balance of Payment:** The export and import ending 1984-85 was recorded to the order of ₹ 9962 crore and ₹ 15600 crore respectively. The trade balance was (—) 21.0 against its projection of (—) 17.8. The disappointing performance of

export was related to an unusual combination of adverse internal and external developments.

2. **Horticultural and Plantation Crops:** The production of vegetables and potatoes was recorded during 1984-85 as 40.00 million tonnes and 16.00 million tonnes respectively. The production of coconut was also satisfactory. Fruits also showed the production of 23.50 million tonnes in 1984-85 against its target of 24.40 million tonnes.

   In the same manner, the production of tea was of little less than the target. It was 645 million kgs in 1984-85 against target of 705 million kgs but coffee's production was more than target 20000 thousand tonnes of production was estimated in 1984-85 when it was only 118.6 thousand tonnes in 1980-81.

4. **Crop Production and Selected Inputs:** In the sixth plan, it was proposed to have replacement rate of 10 per cent for the pollinated crops like wheat and paddy, 100 per cent for hybrids and 5 per cent for pulses and oil seeds. In states like Madhya Pradesh, they are very much low, which it attributed to countless reasons, as high sale prices of the seeds and lack of popularising certified seeds.

   On the other hand, higher replacement rate in some of the states like Assam, Manipur and Tripura (vary from 30 to 60 per cent) are due to the fact that it is not possible for the cultivators of these states to have their own seeds because of the agro-climatic conditions.

5. **Agricultural Credit and Storage Capacity:** The co-operative with their country wide network of 94089 primary agricultural credit societies constitute the most significant agency in terms of volume of loan advanced and territorial coverage. Commercial banks have over 36000 semi urban and rural branches and regional rural banks number 182 with 8727 branches as on March 31, 1985. Through these agencies, disbursement of credit has risen from ₹ 2550 crore in 1979-80 to ₹ 5810 crore in 1984-85.

   Another important development in the field of agricultural credit was the establishment of the National Bank for Agriculture and Rural Development (NABARD) in July, 1982. Its business has gone up from the level of ₹ 703 crore in 1982-83 to ₹ 1056 crore in 1984- 85.

6. **Animal Husbandry and Dairying:** The number of veterinary hospitals and dispensaries rose from 12017 in 1979-80 to 14849 in 1984-85. Besides 19286 Veterinary First Aid Centres were established against the plan target of 18483 to provide animal health facilities near the doorsteps of farmers.

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Similarly, the number of liquid milk plants were recorded 166 in 1984-85 against its number of only 142 in 1979-80. For marketing of eggs, 111 egg and poultry production cum marketing centres were established during the plan period. Three sponsored Dairy development Projects in the districts of Dorrang, Dibrugarh, Sibsagar.

Seventh Five Year Plan (1985-90)

The draft of Seventh Five Year Plan approved by National Development Council on Nov. 9, 1985. It was noted that since independence the inception of planning, Indian economy has made steady progress towards the basic objectives of building an independent, self-reliance economy. The plan sough to emphasize polices, which would accelerate the growth in foodgrain production, increase in employment and raise productivity.

Achievements:

1. **Agriculture:** The first three years were of the poor monsoon years. 150.4 million tons of food-grains was recorded in 1985- 86 which was lower than the previous peak production of 152.4 million tonnes in 1983-84. The second year 1986-87 recorded decline to 143.4 million tones and followed decline to 138.4 million tonnes in 1987-88.

   This set back to agricultural production in these years to be seen against the background of the long-term growth rate of agricultural output around 2.6 per cent for the period from 1949-50 to 1984-85; the growth rate between 1978-79 and 1984-85 rose to 3.5 per cent.

   Among non-food grain crops, the production of oil seeds remained below the target in the first three years of Seventh Plan. In the case of cotton, the output exceeded the target during the first three years. During the current year (1988-89) production is likely to touch a record level of 90.95 lakh bales.

   The production of jute and Mesta in the first two years exceeded the target while the third year registered a fall. The production of sugarcane reached a record to 196.72 million in 1987-88.

   So far as, food crops are concerned, the production of rice was lowered from 59.89 million tonnes in 1985-86 to 53.66 million tonnes in 1986-87 and further to 48.76 million tonnes in 1987-88. In 1988-89, production has been estimated to 67.95 million tonnes.

2. **Agricultural Inputs:** During 1985-86 and 1986-87, total potential irrigation was achieved of 4.41 million hectare against its target of 4.65 million hectares.

However, investment on minor irrigation development was made of the order of ₹ 647 crore in 1985-86 and ₹730 crore in 1986-87.

At the terminal year of the plan, 70 million hectares of land was to be covered under HYV but achievement fell short of the target by 5.7 per cent in 1985-86. 7.4 per cent in 1986-87 and about 17.9 per cent in 1987-88.

The consumption of fertilizer is expected to touch a level of 12.3 million tonnes by the end of 1989-90. However, in 1988-89, the figure of consumption is around 11.3 million tonnes.

3. **Industrial Performance:** The Seventh Plan has laid down considerable emphasis on accelerating the pace of growth by liberalization of industrial licensing policy and other regulations, provision of incentives for certain key areas like electronics etc. The pace of growth is almost maintained in 1987-88 despite the drought conditions, resilience to supply shocks from agriculture and thinning interdependence between agriculture and industry.

   In 1987-88 industrial production had grown at 7.5 per cent while the manufacturing sector recorded a growth of 8.2 per cent. However, the sectoral break up of index of industrial production indicated growth rate of 3.6 per cent, 8.2 per cent and 7.7 per cent respectively for mining, manufacturing and electricity in 1987-88. During April to December 1988, manufacturing sector as a whole grew at 9.9 per cent.

4. **Balance of Payment:** The trade deficit, which averaged 3.4 per cent of GDP during sixth plan period, increased to 3.7 per cent of GDP in 1985-86 but declined in 1986-87 to 3.2 per cent due to both better export performance and acceleration in growth rates of imports.

   Net earnings on invisible account fell down from an average of 2.1 per cent of GDP during sixth plan to 1.4 per cent of GDP in 1985-86 and further to 1.2 per cent of GDP in 1986- 87.

   As a result, current account deficit is estimated to have averaged over two per cent of GDP, as against the targeted average of 1.6 per cent for the plan period.

   In 1987-88, export of ₹ 15741 crore showed a substantial increase of 26.4 per cent as against a small increase of 14.3 per cent recorded in 1986- 87. Similarly, imports too rose at a higher rate of 10.9 per cent in 1987- 88 compared to an increase of only 2.8 per cent in 1986-87.

   In the first three years of seventh plan, imports increased by an annual compound growth rate of 9.3 per cent as compared to an annual compound increase of 16.1

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per cent in the corresponding period of sixth plan. The trade deficit declined from ₹ 7748 crore in 1986- 87 to ₹ 6658 crore in 1987-88.

However, in SDR terms, total foreign exchange reserves stood at SDR 4486 million ending March 1988, showing a fall of SDR 627 million during 1987-88 as compared to a decline of SDR 615 million in 1986-87.

5. **Price Trend:** Monsoon failures generate strong inflationary pressures because of the consequent supply squeeze in agriculture and its effect on the rest of the economy. The annual inflation rate in terms of the wholesale price index (WPI) had gone up to 10.6 per cent during 1987-88. up to January 1989, wholesale price index had come down to 5.4 per cent.

   The consumer price index has also registered a lower increase of 8.6 per cent during April- December, 1988 as against 9.6 per cent in 1986-87. The behaviour of prices during October- November 1988 was erratic.

6. **Employment and Poverty Alleviation Programme:** At the beginning of the Seventh Plan, it was estimated that 222 million persons in rural and 50.5 million in urban areas lay below the poverty line. In terms of percentage, the poverty ratio was 39.9 per cent in rural areas and 27.7 per cent in urban areas in 1984-85. This plan aimed at bringing down the poverty rate from an average of 36.9 per cent to 25.8 per cent. Eighth Five Year Plan (1992-97):

   The eighth five year plan was for the period of April 1992 to March 1997.

Objectives:

1. Generating adequate employment to achieve near full employment level by the turn of the century.
2. Containing population growth through active people's cooperation and an effective scheme of incentives and disincentives.
3. Universalization of elementary education and complete eradication of illiteracy among the people in the age group of 15 to 35 years.
4. Provision of sale drinking water and primary health facilities including immunisation for all villages and entire population and complete elimination of scavenging.
5. Growth and diversification of agriculture to achieve self- sufficient in food and generate surpluses for exports.
6. Strengthening the infrastructure (energy, transport, and communication, irrigation) in order to support the growth processes on a sustainable basis.
7. The withdrawal of the state from these industrial activities where its presence is not essential and encouraging private sector initiative to fill the vacuum.

8. Encouraging all-round productivity and efficiency in the public sector enterprises compelling them to rely on internally generated resources rather than on budgetary support.

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Achievements of the Plan:

1. **Growth Rate:** The Eighth Plan had set a target of 5.6 per cent but it revealed from Economic Survey of 1998-99 that the growth rate, which was only 0.5 per cent in 1991-92 gradually increased to 5.2 per cent in 1992-93 and then increased to 6.2 per cent provisional in 1993-94. In 1994- 95, the CSO estimates show that the growth rate of GDP would be around 6.8 per cent.

   Again, in 1995-96, the CSO estimate shows that the growth rate of GDP would be around 6.8 per cent. Again, in 1995-96, the CSO estimate shows that the growth rate of GDP at factor cost would be around 7.3 per cent. Moreover, in 1996-97, the same growth rate of GDP was around 7.8 per cent. Thus the Eighth Plan is likely to end with an average growth rate of 6.8 per cent per annum.

2. **Gross Domestic Savings and Investment:** Gross domestic savings as per cent of GDP at current prices, during the first four years of the Eighth Plan has increased from 22.1 per cent in 1992-93, to 24.9 per cent in 1994-95 and then to new peak of 26.1 per cent in 1996-97.

   The average gross domestic savings (GDS) as per cent of GDP during the Eighth Plan is estimated at 24.3 per cent and these surpassed the target of 21.6 per cent. The rise in domestic savings in 1996-97 to a peak level of 26.1 per cent of GDP was primarily due to rise in private savings to 24.2 per cent of GDP.

   The gross domestic investment as per cent of GDP at current prices has also increased from 23.9 per cent in 1992-93 to 25.7 per cent in 1996-97. The average gross domestic investment as per cent of GDP during the Eighth Plan reached the level of 25.7 per cent.

   The average of saving-investment gap during the first four years of the Eighth Plan (1992- 96) stood at (—) 1.4 per cent.

   The gross domestic capital formation which was 24.0 per cent of GDP in 1992-93 gradually rose to 25.2 per cent in 1996-97. The average gross domestic capital formation as per cent of GDP during the Eighth Plan (1992-97) stood at 24.5 per cent of GDP.

3. **Sectoral Growth:**

   (i) ***Agriculture:*** In the agricultural sector, has achieved 6.1 per cent growth rate in 1992-93 and 94 per cent growth rate in 1996- 97. Total production of food-grains has increased to 179.5 million tonnes in 1992-93 showing

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a growth rate of 6.6 per cent and then it increased to 199.4 million tonnes in 1996-97 showing a growth rate of 10.5 per cent.

Thus the agricultural sector performed better with an estimated growth rate of 10.5 per cent in 1996-97 as against a negative growth rate of 2.7 per cent in 1995-96. During the Eighth Plan (1992-97), the average growth rate attained by the agricultural sector is estimated at 3.9 per cent.

(ii) ***Mining:*** In respect of Mining and Quarrying sector of the country, the Eighth Plan set the target of attaining annual average growth rate of 8 per cent but this sector could attain the growth rate of 1.1 per cent and 1.7 per cent only in 1992-93 and 1993-94 respectively. Again in 1994- 95, 1995-96 and 1996- 97, this has attained the growth rate of 9.2 per cent, 7.4 per cent and 1.2 per cent respectively.

During the Eighth Plan (1992-97), the average growth rate attained by the mining and quarrying sector was estimated at 3.4 per cent.

(iii) ***Industry:*** As against the targeted growth rate of 7.3 per cent in the manufacturing sector during the Eighth Plan, this sector could attain only 4.2 per cent and 8.4 per cent growth rate in the 1992-93 and 1993-94 respectively.

Again the growth rate of manufacturing sector gradually increased to 10.6 per cent in 1994- 95, 15.0 per cent in 1995-96 and then declined to 7.7 per cent (P) in 1996-97. The average growth rate attained by the manufacturing sector during the Eighth Plan (1992-97) is estimated at 9.2 per cent.

During the Eighth Plan, the industrial sector of the country has responded well to the economic reforms process. Accordingly, the growth rates of industrial sector which was only 4.2 per cent in 1992-93 gradually rose to 6.6 per cent in 1993-94, 9.3 per cent in 1994- 95, 12.2 per cent in 1995-96 and 6.0 per cent in 1996-97.

The average growth rate attained by the industrial sector during the Eighth Plan (1992-97) was estimated at 8.0 per cent.

(iv) ***Electricity, Gas and Water Supply:*** In respect of electricity, gas and water supply sector, the average performance of the sector during the Eighth Plan (1992-97) was 7.3 per cent as against targeted rate of 7.8 per cent.

But taking the energy sector alone, the growth rate of generations of

electricity was only 5 per cent in 1992-93 and then rose to 7.4 per cent in 1994-95 and 8.2 per cent in 1995-96 as against the targeted growth rate of 9 per cent during the Eighth Plan period. This shortfall in respect of generation of electricity has been acting as a hurdle in the path of growth of industrial sector.

(v) ***Transport and Communication:*** The growth of the Transport sector during the first two years of the Eighth Plan was 5.4 per cent in 1992-93 and then declined to 4.4 per cent in 1993-94 as against the targeted annual average growth rate of 6.1 per cent.

The thrust areas identified for the Eighth Plan period include replacement and renewal of over aged assets, augmentation of terminal and rolling stock capacities, gauge conversion and electrification. Indian Railways completed gauge conversion of 1.351 kms. in 1992-93, 1,619 kms. in 1993-94, 1000 kms. in 1995-96 and 1300 kms. in 1996-97.

Again the communication sector has achieved a satisfactory progress, i.e. 10.3 per cent growth rate during 1992-93 and only 4.4 per cent growth rate in 1993-94 as against the targeted annual growth rate of 6.1 per cent during the Eighth Plans.

In 1995-96, new telephone connections grew by 29.3 per cent. The department of Telecommunication has released more than 7 million connections during the first four years of the Eighth Plan since 1991-92. Thus the Eighth Plan target of providing 7.5 million new telephone connections was exceeded by 2.5 million connections.

4. **Services Sector:** In respect of services sector, the rate of growth attained which was 5.4 per cent in 1992-93, gradually increased to 7.7 per cent in 1994-95 and then to 8.0 per cent in 1996-97 (P).

During the Eighth Plan (1992-97), the average growth rate attained by the services sector is estimated at 7.9 per cent as compared to that of 7.4 per cent during the Seventh Plan.

(i) ***Sectoral Share in GDP:*** During the Eighth Plan the sectoral share in GDP between agriculture, industry and services sector has undergone of considerable change from 30.19 per cent in agriculture, 29.08 per cent in industry and 40.73 per cent in services in 1992-93 to 26.10 per cent in agriculture, 31.0 per cent in industry and 42.70 per cent in services sector in 1996-97. The Eighth Plan's projection of sectoral share for 1996-97

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was 24.60 per cent in agriculture, 33.20 per cent in industry and 42.20 per cent in services.

(ii) ***Employment Generations:*** The Eighth Plan set ambitious targets of attaining growth rate of 2.6 per cent in employment generation along with the annual average growth rate of 5.6 per cent in GDP. Accordingly, it was estimated that on an average about 8 to 9 million additional employment opportunities would be generated every year during the Eighth Plan.

As per one estimate of the Planning Commission, it is found that about 6.4 million additional employment opportunities would have been created in 1992-93 and 5.6 million during 1993-94 where the rate of growth of employment generation was 2.6 per cent in 1992-93 and 1.8 per cent in 1993-94.

Again the total annual employment growth in the economy is estimated to have increased to about 7.2 million in 1994-95. Thus although the Eighth Plan envisaged 8 to 9 million new jobs per year but during the first three years of the plan 19.6 million new jobs were created.

(iii) ***Rural Development:*** During the Eighth Plan the achievements of the rural development programmes were not so impressive. About the achievement of IRDP during the Eighth Plan period, total amount f fund utilised was to the extent of ₹ 4,866.7 crore and the total amount of investment made (both subsidy and interest) was to the tune of ₹ 11,523 crore.

Total number of families benefitted during the Plan was 108.08 lakh. Daring the Eighth Plan, in case of DWCRA another sub-scheme of IRDP, a total of 1, 41,397 groups were formed with a membership of 22,66,817. Again in respect of JRY, total number of man-days of employment generated during the Eighth Plan was 4,037.4 million as against the target of 4,040.8 million.

(iv) ***Price Behaviours:*** During the Eighth Plan the behaviour of prices was not satisfactory. In 1992-93, the wholesale price index of the country rose by 7 per cent. In 1993-94, although the Government wanted to control the growth of price level by 5 per cent but ultimately wholesale price index in this year finally rose by 11 per cent and thus crossed the double digit level.

In 1994-95, the inflation rate moved to double digit figure of 11.52 per cent during the week ended February 11 although it reached the level of 10.04 per cent during the week ending March 1995.

Thereafter, the country experienced a continuous, though gradual, decline in inflation rate based on the movement of wholesale price from 10.4 per cent from the first week end of April 1995 to 8.11 per cent by the end of July 1995, and then to 4.40 per cent during the week ending February 1996 and then slightly rose to 4.63 per cent for the week ending March 2, 1996.

Then after reversing the trend, the annual rate of inflation continued its downward climb setting at 4.20 per cent during the week ending April 6, 1996.

Ninth Five Year Plan (1997-2002):

The Ninth Plan has been launched in the 50th year of the independence of our country. This is an opportune moment to take stock of the success of' our planning process. According to the Approach Paper, Ninth Plan will cover the period from 1st April 1997 to 31st March 2002.

The principle task of the Ninth Plan will be to usher in a new era of people-oriented planning, in which not only the Governments at the Centre and the States, but the people at large, particularly the poor, can fully participate.

A participatory planning process is an essential pre-condition for ensuring equity as well as accelerating the rate of growth of the economy. Total investment is proposed to be ₹ 21,90,000 crore of it, public sector investment will be ₹ 8,75,000 crore and private sector investment will be ₹ 13,15,000 crore. The objective of the plan is to achieve a growth rate of 7 percent per annum.

Objectives of Ninth Five Years Plan

The major objectives of Ninth Five Years Plan stated are as under:

(i) Priority to agriculture and rural development with a view to generating adequate productivity employment and eradication of poverty;

(ii) Accelerating the growth rate of the economy with stable prices;

(iii) Ensuring food and nutritional security for all, particularly the vulnerable sections of society;

(iv) Providing the basic minimum services of safe drinking water, primary health care facilities, universal primary education, shelter, and connectivity to all in a time bound manner;

(v) Containing the growth rate of population;

(vi) Ensuring environmental sustainability of the development process through social mobilisation and participation of people at all levels;

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(vii) Empowerment of women and socially disadvantaged groups such as Scheduled Castes, Scheduled Tribes and other Backward Classes and Minorities as agents of socio-economic change and development ;

(viii) Promoting and developing people's participatory institutions like Panchayati Raj Institutions, co-operatives and self-help groups.

(ix) Strengthening efforts to build self-reliance.

Achievements of the Ninth Plan:

The Ninth Plan has already completed its four year duration, thus it is quite necessary to review the achievements of the plan. Let us now examine the achievements of the Ninth Plan.

(i) **Growth Rate:** Regarding annual growth rate of GDP, although the approach paper of the Ninth Plan initially set the target of attaining 7.0 per cent annual growth rate of GDP but considering the slowdown of the economy, the draft Ninth Plan has reduced the overall growth targets in GDP from 7.0 per cent to 6.5 per cent.

But according to the Economic Survey 2001-2002, the growth rate of GDP which has only 4.8 per cent in 1997-98 gradually increased to 6.5 per cent in 1998-99 and then decelerated marginally to 6.2 per cent in 1999-2000 and then to 4.0 per cent in 2000-01 and then to 5.4 per cent in 2001-02.

Therefore, the annual average growth rate during the Ninth Five Year Plan (1997-2002) is now estimated at 5.4 per cent which is lower than the plan target of 6.5 per cent.

(ii) **Gross Domestic savings and Investment:** The Ninth Plan draft had set the target of gross domestic savings rate at 26.1 per cent of GDP but the same rate at current prices, during the first three years of the Plan has reached the level of 23.1 per cent in 1997-98, 21.7 per cent in 1998-99 and 23.2 per cent in 1999- 2000 and 23.4 per cent in 2000-01.

The gross domestic investment as per cent of GDP at current prices has reached the level of 25.0 per cent in 1997-98, 22.7 per cent in 1998- 99 and 24.3 per cent in 1999-2000 and 24.0 per cent in 2000-01 as against the annual average target of 28.2 per cent.

(iii) **Sectoral Growth:** Although the draft Ninth Plan had set a target to attain annual average growth rate of 3.9 per cent in Agriculture and allied sector but during the first three years of the Ninth Plan it has attained 2.7 per cent growth

rate. The same sector attained the growth rate of (—) 2.7 per cent in 1997-98, 7.6 per cent in 1998-99, (—) 0.9 per cent in 1999-2000, (—) 6.6 per cent in 2000-01 and finally 6.8 per cent in 2001-02.

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The index of agricultural production (1981- 82 = 100) increased from 165.3 in 1997-98 to 177.9 in 1998-99, 176.2 in 1999- 2000, 164.6 in 2000-01 and finally to 175.9 in 2001-02.

Total production of food-grains has also increased substantially from 192.3 million tonnes in 1997-98, 203.6 million tonnes in 1998-99, 209.8 million tonnes in 1999-2000 and then declined to 195.9 million tonnes in 2000-01 and then again increased to 209.2 million tonnes in 2001-02. Thus the agriculture and allied sector has shown a mixed performance during the period of the Ninth Plan.

1. **Mining:** In respect of mining and quarrying the Ninth Plan has set a target of attaining growth rate of 7.2 per cent but during the first three years of the plan, this sector could attain an average growth rate of 2.9 per cent. The yearly growth rate of this sector was 6.9 per cent in 1997-98 and then the same growth rate declined to 0.9 per cent in 1998-99, 1.0 per cent in 1999- 2000 and 3.7 per cent in 2000-2001 and 1.1 per cent in 2001-02.

2. **Industry:** The growth rate of 8.2 per cent was fixed in the manufacturing sector during the Ninth Plan. This sector could attain on an average 4.9 per cent growth rate during the first three years of the plan. Again, in respect of Electricity, Gas and water supply, as against the targeted growth rate of 9.3 per cent, this sector could attain the growth rate of 7.7 per cent during the first three years of the plan.

   But taking the industry sector as a whole, this growth rate attained in this sector was 6.7 per cent in 1997-98 and 4.1 per cent in 1998-99 but then the same growth rate increased to 6.7 per cent in 1999- 2000 and 5.0 per cent in 2000-2001 and 2.3 per cent in 2001-02.

3. **Transport and Communication:** The Ninth Plan has fixed the target of 3.9 per cent for rail transport, 4.4 per cent in other transport and 9.5 per cent in communication sector, but during the first three years of the plan these sectors could attain an average growth rate of 3.1 per cent, 5.6 per cent and 14.1 per cent respectively.

4. **Trade:** As against the targeted growth rate of 6.7 per cent in the trade sector during the Ninth Plan this sector could attain on an average 6.7 per cent growth rate of during the first three years of the plan.

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5. **Service Sector:** The growth rate of 9.9 per cent in the financial services sector was targeted in the Ninth Plan. The sector could attain on an average 11.4 per cent growth rate during the first three years of the plan. Again, in respect of other services, as against the targeted growth rate of 6.6 per cent, the actual realisation of the target during the first three years of the plan was 8.8 per cent. But taking the services sector as a whole, the growth rate attained in this sector was 9.8 per cent in 1997-98, 8.2 per cent in 1998-99, 9.6 per cent in 1999-2000 and 6.5 per cent in 2000-2001.
6. **Price behaviours:** During the first four years of the Ninth Plan, the price behaviour of the country reflects a moderate behaviour in its price level. Accordingly, the average rate of inflation (WPI) which was 4.4 per cent in 1997-98, gradually rose to 5.9 per cent in 1998-99 and then declined to 3.3 per cent in 1999-2000 and again rose to 7.1 per cent in 2000-2001 and finally to 4.4 per cent in 2001-02.

Tenth Five Year Plan of India (2002-03 to 2006-07)

Approach Paper of the Tenth Plan:

The Approach Paper of the Tenth Plan was unanimously approved by the National Development Council in its meeting held on 1st September, 2001. The Planning Commission, in its approach paper, set an ambitious target of 8.0 per cent growth rate in gross domestic product during the Tenth Plan.

The approach paper focuses on the need for revamping resource structure and also for reorienting expenditure management so as to achieve the other targets set by it for the Tenth Plan, especially with regard to reduction of poverty ratio to 20 per cent by 2007, reduction of gender gaps in life expectancy and literacy by 50 per cent, universalisation of primary education by the end of the Plan, reduction of decadal growth of population to 16.2 per cent in the period between 2001 and 2011 and finally, reduction of unemployment through growth related infrastructural and social development programmes.

Objectives of Tenth Plan:

Traditionally, the level of per capita income has been regarded as a summary indicator of the economic wellbeing of the country and growth targets have therefore focused on growth in per capita income or per capita GDP.

In the past, our growth rates of GDP have been such as to double our per capita income over a period of 20 years or so. Recognising the importance of making a quantum

jump compared with past performance, the Prime Minister has directed the Planning Commission to examine the feasibility of doubling per capita income in the next ten years.

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With population expected to grow at about 1.6 per cent per annum, this target required the rate of growth of GDP to be around 8.7 per cent over the Tenth and Eleventh Plan periods.

This approach paper proposed that the Tenth Plan should aim at an indicative target of 8.0 per cent GDP growth for the period 2002-07. This was lower than the growth rate of 8.7 per cent needed to double per capita income over the next ten years, but it was viewed as an intermediate target for the first half of the period.

It was certainly a very ambitious target, especially in view of the fact that GDP growth had decelerated to around 6 per cent at present. Even if the deceleration was viewed as a short term phenomenon, the medium term performance of the economy over the past several years was only about 6.5 per cent. Proposed 8 per cent growth target therefore involved an increase of at least 1.5 percentage points over the recent medium term performance.

Economic growth cannot be the only objective for national planning and indeed over the years, development objectives are being defined not just in terms of increases in GDP or per capita income but broader in terms of enhancement of human wellbeing.

This includes not only an adequate level of consumption of food and other types of consumer goods but also access to basic social services especially education, health, availability of drinking water and basic sanitation.

It also includes the expansion of economic and social opportunities for all individuals and groups reduction in disparities and greater participation in decision making. Tenth Plan must therefore set suitable targets in these areas to ensure significant progress towards improvement in the quality of life of all our people.

Important Targets of the Tenth Plan

To reflect the importance of these dimensions in development planning the Tenth Plan must establish specific and monitor-able targets for a few key indicators of human development.

It is proposed that in addition to the 8 per cent growth target, the targets given below should also be considered as being central to the attainment of the objectives of the plan..

Monitorable Targets for the Tenth Plan and Beyond

1. Reduction of poverty ratio by 5 percentage points by 2007 and by 15 percentage points by 2012;

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2. Providing gainful high-quality employment to the addition to the labour force over the Tenth Plan period;
3. All children in school by 2003; all children to complete 5 years of schooling by 2007;
4. Reduction of gender gaps in literacy and wage rates by at least 50 per cent by 2007;
5. Reduction in the decadal rate of population growth between 2001 and 2011 to 16.2 per cent;
6. Increase in Literacy rates to 75 per cent within the Plan period;
7. Reduction of Infant Mortality Rate (IMR) to 45 per 1000 live births by 2007 and to 28 by 2012;
8. Reduction of Maternal Mortality Ratio (MMR) to 22 per 1000 live births by 2007 and to 11 by 2012;
9. Increase in forest and tree cover to 25 per cent by 2007 and 33 per cent by 2012;
10. All villages to have sustained access to potable drinking water within the Plan period; and
11. Cleaning of major polluted rivers by 2007 and other notified stretches by 2012.

Above mentioned social targets will require a substantial allocation of resources to the social sector and major improvements in governance to make effective use of these resources. It must also be recognized that achievements of these targets is not independent of the achievement of high growth.

Indeed, high growth rates will generate the flow of public resources needed to sustain improvements in social indicators. The Plan has traditionally focused on setting national targets but recent experience suggests that the performance of different states varies considerably.

Eleventh Five-Year Plan (2007-2012)

The National Development Council (NDC) has approved the Eleventh Plan on 19th December 2007 to raise the average economic growth rate to 9 percent from 7.6 percent recorded during the Tenth Plan.

The total outlay of the Eleventh Plan has been placed at ₹3644718 crore which is more than double of the total outlay of the previous Tenth Plan.

In this proposed outlay, the contribution of Central Government and State governments will be ₹2156571 crore and ₹ 1488147 crore respectively. In order to

make growth more inclusive, the Eleventh Plan proposes to increase the agriculture sector growth rate to 4 percent from 2.13 percent in the Tenth Plan.

The growth targets for industry and services sectors have been pegged at 9 to 11 percent.

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The industrial growth rate in the Tenth Plan was 8.74 percent, which the services sector grew by 9.28 percent. The basic theme of this plan period is "Inclusive Growth".

Salient Features of Eleventh Plan:

1. The investment rate has been proposed to be raised to 36.7 percent from 30.8 percent in the previous plan.
2. The draft document has envisaged a savings rate of 34.8 percent, which is substantially higher than 30.8 percent recorded in the Tenth Plan.
3. The major thrust of the plan will be on social sector, including agriculture and rural development.
4. Important targets include reducing poverty by 10 percentage points, generating 7 crore new employment opportunities and ensuring electricity connection to all villages.
5. More investment on infrastructure sector including irrigation, drinking water and sewage from 5 percent of Gross Domestic Product (GDP) in 2005-06 to 9 percent by 2011-12.

Main Targets of the Eleventh Plan:

1. **Income and Poverty:**
   (i) Accelerate GDP growth from 8% to 10% and then maintain at 10% in the 12th plan in order to double per capita income by 2016-17.
   (ii) Create 70 Million new work opportunities.
   (iii) Reduce educated unemployment to below 5%.
   (iv) Reduce poverty by 10 percentage points.
2. **Education:**
   (i) Reduce dropout rates of children from elementary school from 52.2% in 2003-04 to 20% by 2011-12.
   (ii) Increase literacy rate for persons of age 7 years or more to 85%.
   (iii) Lower gender gap in literacy to 10 percentage points.
3. **Health:**
   (i) Reduce infant mortality rate to 28 and maternal mortality ratio to 1 percent 1000 live births.

(ii) Reduce Total Fertility rate to 2.1.

(iii) Reduce malnutrition among children of age group 0-3 to half its present level.

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4. **Infrastructure:**

(i) Ensure electricity connection to all villages by 2009 and round-the-clock power.

(ii) Increase forest and tree cover by 5 percent points.

(iii) Attain World Health Organization standard of air quality in all major cities by 2011-12.

(iv) A telephone in every village by November 2007.

(v) Broadband connectivity to all villages by 2011-12.

Growth Target

According to the Eleventh Plan documents the task of achieving an average growth rate of around 9 percent in the 11th plan is macro economically feasible. In fact, the scenarios show that even 10 percent growth rate is achievable with a strong fiscal effort that is difficult but not impossible.

However, to achieve a more inclusive growth, substantial resources would have to be directed to setting right t e neglect of rural infrastructure and provide education and health services to all. While these outlays will eventually lead to faster growth.

Twelfth Five Year Plan (Fyp-12) 2012-17

The FYP-12 will cover the period from 2012-17. The Plan is expected to be different than all the earlier plans. This is basically because of the differences in the economic environment in which the plan has to be operationalised.

Among these differences, the three more important are as follows: The first is the demographic shift with a rising proportion of young workers in the North, the opposite phenomenon of a rise in the old age dependency ratio in the South and a massive shift of population from rural to urban areas.

The second is the shift of the centre of gravity of the global economy to Asia, most particularly the rise of China. The third is the growing pressure to dematerialise growth, partly because of environmental concerns (e.g., global warming) and partly because of resources scarcities (e.g., of cheap oil).

In view of these it is important to spell out new priorities in the development plan, some of these can be identified as follows:

(i) Connecting slow growth regions and remote areas (e.g., the tribal belt, the Northeast, the Gangetic plan and Kashmir) to the fast-growing mainstream economy.

(ii) Providing top-quality vocational training to widen opportunities for younger workers.

(iii) Reconstructing the plethora of anti-poverty and affirmative action programmes as a structured social security system.

(iv) Moving Indian agriculture from a low-productivity-staple producing system to a rising productivity, commercially oriented sector.

(v) Reinventing the process and management of urbanisation.

(vi) Building much stronger economic links with China and Hast Asia.

(vii) Managing emerging stresses in the water economy.

(viii) Coping with the risks of climate change.

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These eight areas do not constitute the sum of all development. But they are the areas where our present policies are grossly inadequate and need radical overhaul.

3.7 Failures of Economic Plans

The following points highlight the fourteen major failures of economic plans in India. They are: 1. Stagnant Economy 2. Poverty 3. Unequal Distribution of Income and Assets 4. Increasing Unemployment 5. Abnormal Growth of Population 6. Inflationary Pressure 7. Adverse Balance of Payment and Others.

- **Stagnant Economy:** When India became Independent, it had deep marks of stagnation. During the phase of fifty years of economic planning, its growth rate is zero or near. According to one estimate, growth of national income was about 1.15 per cent during 1860 to 1950 per year and growth of per capita was at less than 0.5 per cent. Similar trend has been noticed after the adaptation of plans. This fact is also reflected from the national income by industrial origin.
- **Poverty :** These five year plans have miserably failed to make a dent on poverty as 40 per cent of population is in tight grip of poverty. The poverty is greatly responsible for poor diets, low health and poor standard of living. A large proportion of the population has to go even without the most essential needs of daily life.
- **Unequal Distribution of Income and Assets:** Another failure of the planning is that the distribution of income and other assets in rural and urban areas

continued to be skewed. The bulk of increased income has been pocketed only by the rich few while weaker section of the society live hand to mouth and lead very miserable life.

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- **Increasing Unemployment :** Increasing unemployment in our country is the burning problem of the day. At the beginning of the first five year-plan the number of unemployed was hardly 33 lakh but at the end of eighth plan, it reached 350 lakh. The percentage of unemployment which was around 2.8% stands at 10.99% in2020.
- The pitiful position is found in rural areas where disguised unemployment and white collar unemployment (educated unemployment) in urban areas are in a deplorable position. The rapid increase in unemployment situation is due torpid increase in labour force due to rapid increase in population, use of capital intensive techniques instead of labour-intensive techniques, defective education system, inefficient government administration, corrupt political environment and instable governments-both central and states.
- **Abnormal Growth of Population:** In all plans, main objective was to check over-population but it has miserably failed to bridge the galloping population. The rapid growth of population has aggravated the situation to the worst. This problem gives birth to twin problems of poverty and unemployment.
- **Inflationary Pressure:** Inflation had been started with the onset of the heavy doses of investment programmes during different five year plan periods. Now, it turned to the gravity of the problem as it has created serious imbalances in the socio-.politico-economic relations. The people with fixed income group find it extremely difficult to maintain the standard of living.
- **Adverse Balance of Payment:** Truly, the production of agricultural and industrial sector has increased manifold but still we are dependent on imports. In our plans, we have stressed on export promotion and import substitution to correct the adverse balance of payment but no headway has been seen in this direction. It has continuously been unfavourable.
- The situation has further been deteriorated since, the penultimate year of Sixth Five Year Plan. The situation in Seventh Plan has not been improved but it is still dismal. In 2001, total external debt was of ₹ 471724 crores against ₹ 163001 crore in 1991.
- **Unproductive Expenditure:** India is deficient in capital due to rising expenditure on unproductive channels. Moreover, huge investments are made

on the construction of five star hotels and other wasteful consumption. Its benefits go in the hand of few affluent people who generally concentrate wealth. Consequently, rich becomes rich and poors lag behind.

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- **Huge Amount of Deficit Financing:** To mobilise the resources for different plans, government has absolutely failed to manage from internal resources. The government at this time, left with no alternative of deficit financial. From 1950-51 to 1984-85 total amount of deficit financing in the country was ₹ 24440 crores. During Eighth Plan, it was proposed to be ₹ 207000 (8.6% Eighth of total outlay) crores.
- Biased Growth Profile: At large, Indian plans have given many evils like growth of monopolistic practices, large inequalities, poverty but still it has delivered biased growth profile in favour of more wellto- do section of the society. It has widened the gap between man and man, region to region. The result is that a large many are below poverty line.
- **Vicious Circle of Poverty:** Another major objective of planning in India is the eradication of poverty. However, we have badly failed on this front also as more than 30% of India's population is still-living below poverty line. We are encircled by vicious circle of poverty. A large proportion of India's population does not get even bare necessities of life satisfied.
- **Inadequate Social Development:** Despite the 55 years of economic planning in India, we have miserably failed on the social development front. Economic planning in India has not been able to make any social change, particularly in the living standards of the common people and curbing poverty. The national income and per capita income both are extremely low as compared to developed countries. We are ill-fed and ill-nourished.
- **Defective Process of Planning:** The defective process of planning which came into force since the beginning of the planning in India, is also responsible for the failure of our economic planning. We have followed a fragmented approach rather than integrative approach towards planning, with the result that the development activities have not been commensurate with the investments made in the Plans.
- **Slow Economic Growth:** Another major reason of failure of economic planning in India is the slow growth rate of Indian economy. The achievement of different sectors during the plan period has been much below the scheduled targets.

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3.8 Understanding India's Economic Reforms

Various reforms and structural changes have taken place in India since 1991.

Structural Adjustment Programmes: Globalization, Liberalization and Privatization

Economic reforms in India were started by late Prime Minister Rajiv Gandhi. He said, "The public sector has entered into too many areas where it should not be. We shall open the economy to the private sector in several areas hitherto restricted to it." Consequently, a number of measures were taken to remove control and open areas to private sector players. However, Rajiv Gandhi did not take a very strong and categorical position on the issue of privatization and globalization, though some liberalization of the economy did take place. It was when Mr. Narasimha Rao took over as Prime Minister in 1991 that a new industrial policy was announced, which marked a sharp departure from the earlier industrial policy of 1956. There were three aims of the new economic policy—liberalization, globalization and privatization.

Liberalization: An Overview

The main aim of liberalization was to dismantle the excessive regulatory framework which acted as a shackle on freedom of enterprise. Over the years, the country had developed a system of licence-permit-control raj. The aim of the new economic policy was to save the entrepreneur the unnecessary harassment of seeking permission from the bureaucracy to start an undertaking. Similarly, the big business houses were unable to start new enterprises because the MRTP Act had prescribed a ceiling on the asset ownership to the extent of ₹ 100 crore. In case a business house had assets more than ₹100 crore, its application was rejected. It was believed that on account of the rise in prices this limit had become outdated and needed reviewing. The second objection by the private sector lobby was that it prevented big business houses from investing in heavy industry and infrastructure, which required lump sum investment. The NDA in its election manifesto had suggested that the asset limit of MRTP companies should be raised to ₹ 1000 crore. The government thought it wise to abolish the limit altogether so that big businesses could establish big projects in the core sectors—heavy industry, petrochemicals, electronics, etc. The Government was of the view that in the context of liberalization, the MRTP limit had become irrelevant and needed to be scrapped.

The major purpose of liberalization was to free the large private corporate sector from bureaucratic controls. It therefore, started dismantling the regime of industrial

licensing and control. In pursuance of this policy, the industrial policy of 1991 abolished industrial licensing for all projects except for a small set of 18 industries.

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The list of industries in which industrial licensing is compulsory is as follows:

1. Coal and lignite
2. Petroleum and its distillation products
3. Distillation and brewing of alcoholic drinks
4. Sugar
5. Animal fats and oils
6. Cigars and cigarettes
7. Asbestos and asbestos-based products
8. Plywood and other wood-based products
9. Raw hides and skins
10. Tanned fur-skins
11. Paper and newsprint
12. Electronics, aerospace and defence equipment
13. Industrial explosives
14. Hazardous chemicals
15. Drugs and pharmaceuticals

Privatization and its Forms and Objectives

Privatization is the process of involving the private sector in the ownership or operation of a state-owned or public sector undertaking. It can take three forms: (i) Ownership measures, (ii) Organizational measures and (iii) Operational measures.

1. **Ownership Measures:** The degree of privatization is judged by the extent of ownership transferred from the public enterprise to the private sector. Ownership may be transferred to an individual, co-operative or corporate sector. This can have three forms:
   (a) Total denationalisation implies 100 per cent transfer of ownership of a public enterprise to the private sector.
   (b) Joint venture implies partial transfer of a public enterprise to the private sector. It may have several variants—25 per cent transfer to private sector in a joint venture implies that majority ownership and control remains with the public sector. Fifty one per cent transfer of ownership to the private sector shifts the balance in favour of the private sector, though the public

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sector retains a substantial stake in the undertaking. seventy-four per cent transfer of ownership to the private sector implies a dominant share being transferred. In such a situation, the private sector is in a better position to change the character of the enterprise.

(c) Liquidation implies sale of assets to a person who may use them for the same purpose or for some other purpose. This depends solely on the preference of the buyer.

(d) Workers' Cooperative is a special form of denationalisation. In this form, ownership of the enterprise is transferred to workers who may form a co-operative to run the enterprise. In such a situation, appropriate provision of bank loans is made to enable workers to buy the share of the enterprise. The burden of running the enterprise rests on the workers in a workers' cooperation. The workers become entitled to ownership dividends besides getting wages for their services.

2. **Organisational Measures:** These include a variety of measures to limit state control, such as:

   (a) A holding company structure may be designed in which the government limits its control to top-level major decisions and leaves a sufficient degree of autonomy for the operating companies in their day-to-day operations. A big company like the Steel Authority of India may acquire a holding company status, thereby transferring a number of functions to its smaller units. In this way, a decentralised pattern of management emerges.

   (b) ***Leasing:*** In this arrangement, the government agrees to transfer the use of assets of a public enterprise to a private bidder for a specified period, say five years. While entering into a lease, the bidder is required to give an assurance of the quantum of profits that would be made available to the state. This is a kind of tenure ownership. The government reserves the right to review the lease to the same person or to grant the lease to another bidder, depending upon the circumstances of the case.

   (c) ***Restructuring:*** It is of two types—Financial Restructuring and Basic Restructuring.

      (i) Financial Restructuring implies the writing-off of accumulated losses and rationalisation of capital composition in respect of debt–equity ratio. The main purpose of this restructuring is to improve the financial health of the enterprise.

(ii) Basic Restructuring is said to occur when the public enterprise decides to shed some of its activities to be taken up by ancillaries or small-scale units.

(iii) Operational Measures: The efficiency of public sector enterprises depends upon the organisational structure. Unless this structure grants a sufficient degree of autonomy to the operators of the enterprise or develops a system of incentives, it cannot raise its efficiency and productivity. These measures include (a) grant of autonomy to public enterprises in decisionmaking, (b) provision of incentives for workers and executives consistent with increase in efficiency and productivity, (c) freedom to acquire certain inputs from the markets with a view to reducing costs, (d) development of proper criteria for investment planning and (e) permission to public enterprises to raise resources from the capital market to execute plans of diversification. The basic purpose of operational measures is to infuse the spirit of private enterprise in public enterprises so that government control is effectively reduced and private initiative is promoted.

Privatization in a narrow sense indicates transfer of ownership of a public sector undertaking to private sector, either wholly or partially. But in another sense, it implies the opening up of the private sector areas which were hitherto reserved for the public sector. Such deliberate encouragement of investment to the private sector in the economy, while emphasising to a lesser degree the expansion of the public sector, will increase the overall share of the private sector in the economy. The basic purpose is to limit the areas of the public sector and to extend the areas of private sector operation.

AIMS of Liberalization, Globalization and Privatization

Liberalization, globalization and privatization are all means to achieve certain ends of the society just as nationalisation and regulatory frameworks were intended to achieve certain goals. These are:

1. To achieve a high rate of growth of national and per capita income.
2. To achieve full employment.
3. To achieve self-reliance.
4. To reduce inequality of income and wealth.
5. To reduce the number of people living below the poverty line.
6. To develop a pattern of society based on equality and absence of exploitation.

The operation of the public sector and the regulatory framework led to certain problems, namely:

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(i) The excessive development of bureaucratic controls acted as shackles on growth.

(ii) Overstaffing in public sector enterprises led to an increase in the cost of operation.

(iii) Low rate of return on investment in public sector.

(iv) Poor work ethic in public sector enterprises due to excessive job security and absence of incentives for better work.

(v) Entry of public sector in areas of consumer goods for which it was never meant. Thus unnecessary expansion resulted in the absence of focus and dilution in the quality of management.

(vi) Some public sector enterprises were incurring losses year after year and as such had become a burden on the public exchequer, instead of being an asset to the nation.

The measures undertaken are all designed to rectify these problems so that the working of the economy becomes more efficient and its rate of growth improves.

Review of Economic Reforms

There is general agreement among all political parties that reforms are a historical necessity and it is not possible to reverse the reform process. Even the Left parties, after the collapse of the former Soviet Union, have accepted the view that reforms in the form of liberalization, privatization and globalization will have to be undertaken. The reforms process has helped to accelerate growth. However, the benefits of growth have not percolated to the poor and weaker sections of the society.

Table : Rate of Growth of GDP (at 1980–81 prices)

Year	Growth Rate
1991–92	0.9 per cent
1992–93	5.0 per cent
1993–94	4.5 per cent
1994–95	6.7 per cent
1995–96	6.3 per cent
1996–97	6.8 per cent

1. **Higher growth rate achieved:** Since the reform process was initiated the growth rate of the economy has started picking up. The growth rate of GDP slumped to 0.9 per cent in 1991–92, but picked up thereafter. The average growth rate of over 6 per cent during the five years (1992–93 to 1996–97) is an achievement

of the reform process. This would result in an average 4 per cent growth rate of per capita GDP.

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2. **Control of Inflation:** During 1993–94 and 1994–95, the wholesale price index rose by 10.8 per cent and 10.4 per cent respectively. Thereafter, due to strong measures taken during 1995–96, the rate of inflation slowed down to 5 per cent.

   The impact of inflation on the common man is measured by the consumer price index. The consumer price index has shown an average rise of over 10 per cent during 1991–1997. This implies the failure of the reform process to control inflation despite the achievement of high growth rate.

3. **Reform of the Public Sector:** The major aim of economic reforms is to improve the public sector so that the rate of return improves. To remedy the situation, it was necessary that overstaffing of the public sector undertakings be reduced. The government has already taken steps in this direction by its voluntary retirement scheme. It set up the National Renewal Fund to provide compensation for voluntary retirement and also arranged for retraining and redeployment of workers. As a result of the VRS, the employee strength of PSUs has been reduced by 8 per cent. Another step taken by the government was disinvestment in PSUs. The government has been offering equity of 31 selected public sector enterprises, varying from 5 per cent to 20 per cent to Mutual Funds and Financial Institutions. This is only a token privatization and the government was able to raise ₹ 9793 crore during the four-year period (1991–92 to 1994–95).

   Critics describe disinvestment as deficit privatization because the proceeds of disinvestment are being used to reduce the budget deficit. The Common Minimum Programme of the NDF Government stipulated that the proceeds of disinvestment would be used in two vital areas—health and education. On the whole, the reforms of PSUs have not gathered as much momentum as expected. Disinvestment has been piecemeal and the funds so raised are being used to reduce budget deficits rather than strengthen the PSUs. In addition, labour problems, political and bureaucratic interference have not been effectively used. Since it is not possible to privatise a large component of the public sector, it would be advisable to reform it.

4. **Large dose of Foreign Capital to help Indian Economy:** The reforms process, especially its emphasis on globalization, was intended to accelerate the growth process by attracting a larger dose of foreign capital. However, the efforts of

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the state met with only partial success. The data reveal that during 1991–92 to 1995–96, total investment flows of the order of ₹ 1,174 billion were made, out of which portfolio investment was of the order of ₹8.05 billion and direct foreign investment accounted for barely $ 3.69 billion. Critics point out that mainly 39 per cent of foreign investment is in the nonpriority sector. The entry of multinationals in consumer goods only displaces Indian labour and capital employed in the production of these commodities.

5. **Reform Process and the Foreign Trade Scenario:** The reform process has led to growth of exports but simultaneously, it has also led to a larger growth of imports. As a result, the trade gap has not been reduced.

Globalization and its Objective

Globalization intends to integrate the Indian economy with the world economy. Globalization is considered to be an important element in the reforms package. It has four parameters:

(i) Reduction of trade barriers so as to permit free flow of goods and services across national frontiers;

(ii) Creation of an environment in which free flow of capital can take place;

(iii) Creation of an environment permitting free flow of technologies among nation-states; and

(iv) Creation of an environment in which free movement of labour can take place in different countries of the world.

The advocates of globalization limit the definition of globalization to only three components viz.; unhindered trade flows, capital flows and technology flows. They insist that the developing countries accept their definition of globalization and conduct the debate on globalization within the boundaries set by them. But many economists in developing countries believe that this definition is incomplete. If the ultimate aim of the globalization movement is to integrate the world into one global village, then the fourth component of unrestricted movement of labour cannot be left out.

To pursue the objective of globalization, the following measures have been taken.

(i) ***Reduction of import duties:*** There has been a considerable reduction in import during the past five years. The maximum rate was reduced from 150 per cent in 1991–92 to 110 per cent in 1992, to 85 per cent in 1993–94 and 50 per cent in 1995–96. Custom duties on imports of capital goods were reduced to 80 per cent in July 1991, to 55 per cent in 1992 and to 25 per cent in 1995. Tariffs on

imports of raw materials and manufactured intermediates have been reduced. Besides this, the government has attempted to rapidly dismantle quantitative restrictions on imports and exports. It has also undertaken adjustment of exchange rate so as to remove over-valuation of currency. This has helped in stepping up exports.

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In February 1997, the Commerce Ministry removed restrictions on 162 items for imports. Of them, 69 items were moved from Special Import Licence (SIL) to free imports. Among these items are escalators and moving walkways, cable cars, fire alarms, cameras of all kinds, industrial vacuum cleaners and various kinds of glassware. Besides this, 93 items were moved from the industrial to SIL list, which include photographic firms rubber stoppers, aluminium beverage cans, car, air-conditioning machines, cosmetic perfumes, picture tubes and a wide range of office machines.

(ii) ***Encouragement of foreign investment:*** The government has taken a number of measures to encourage foreign investment. The main measures taken in this regard are:

(a) Approval would be given for direct investment up to 51 per cent foreign equity in high priority industries as per the Industrial Policy of 1991. Such clearances will be given if foreign equity covers the foreign exchange requirements for imported capital goods.

In December 1996, the cabinet gave its assent to a new list of industries whereby joint ventures with up to 74 per cent foreign equity would be cleared automatically. The basic purpose of this move is to facilitate direct foreign investment in India.

(b) To provide to international markets, majority foreign equity holding. Up to 51 per cent equity would be allowed for trading companies primarily engaged in export activities.

(iii) ***Encouragement to foreign technology agreement:*** The Industrial Policy of 1991 undertook the following measures:

(a) Automatic permission will be given for foreign technology agreements in high priority industries up to a lump sum payment of 1 crore, 5 per cent royalty for domestic sales and 8 per cent for exports subject to total payments of 8 per cent sales over a 10-year period from the date of the agreement or 7 years from the commencement of production.

(b) In respect of other industries, automatic permission would be given if no free foreign exchange is required for any payment.

(c) No permission will be necessary for hiring of foreign technicians and foreign testing of indigenously developed technologies.

Rationale behind Economic Reforms

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The rationale for privatization in various countries can generally be classified under three heads: pragmatism, a commercial point of view, and ideological compulsions. Pragmatism was born of hard facts: the mammoth public sector units had failed to deliver on counts of efficiency and output both, thereby belying the faith in them to establish the foundations of sound economic growth. While a few of them did manage to produce good results, they generally showed a marked decline from the 1970s, though a handful did well after the 1980s. Fewer still managed to yield fairly decent returns on investment, dividends that were disproportionate to the enormous amounts of time and money invested in them. As such, they were not pulling their weight in the economy, and needed to be overhauled drastically.

Second, the organizational culture in PSUs militated against good management, and it was felt that privatization would revitalize them by letting them be run on commercial lines typified by the private sector approach to industrial activity, including clipping the wings of powerful, much politicized trade unions that severely impeded the progress of the PSU juggernauts.

Third, and as a corollary to the above, on account of historical reasons, the government was accustomed to getting its work done the easy way, i.e., by official diktat; its autocratic, 'power distance', impersonal style of functioning made it difficult for it 'connect' meaningfully with its key managerial personnel and motivate them to effect commercial viability. This was unfortunate, given the fact that there were many highly capable managers within the ranks of the PSUs.

In keeping with the socialistic pattern of functioning, private enterprise had long laboured under the stigma of profiteering at public expense. If the private sector can at all be accused of making money at public expense, it also cannot be denied that it was merely responding in the only way it could, given the monopolistic and monolithic structure installed by the very government that now clamoured for efficiency and productivity in PSUs. In fact, by squandering the opportunities that had been handed to it on a platter, the public sector—not its private sector cousin— was the main culprit for the low productivity, poor return on investment and callous disregard for national priorities such as poverty eradication (job reservation was never more than a mere sop to appease political sentiments; barely scratching the surface of the problem) that had brought the nation to a stage where it had to contend with a series of financial

crises, and which badly tarnished its image. On the other hand, the private sector had flourished mightily despite—or perhaps because of—a system that gave it (on a quid pro quo basis, let it be admitted) protection from competition through licensing and other privileges. It was left to the government of PV Narasimha Rao and his Finance Minister Dr. Manmohan Singh to take the bull by the horns and introduce what is today known as the liberalized regime. By beginning the long-overdue task of revamping the economy in line with global trends, unshackling it from bureaucratic control, lowering trade tariffs and allowing foreign conglomerates into the country, they served notice on a complacent public sector to perform or perish.

It was the start of a process whereby several unviable or redundant PSUs went under the hammer or were referred to the BFIR, while the more efficient ones were encouraged to adopt the MOU route that gave them freedom to function on commercial lines, in return for full accountability. Several PSUs that had been ailing under tight government controls, over-staffing and trade union militancy such as NTPC, National Fertilisers and Hindustan Organic Chemical Ltd., immediately took humane but firm measures to effect smart turnarounds that left the critics dumbfounded. Going further, dilution of the policy of sector-wise reservations generally gave both sectors the freedom to establish enterprises where earlier, entry was mutually exclusive. In the final analysis, the long-term health of the economy would depend heavily on how the better PSUs like Indian Oil Corporation (the lone Indian corporate in the Fortune 500 list) and GAIL happen to fare. In weeding out the inefficient PEs and reengineering the good ones, the government can at last concentrate on its real function—governance, support, inspiration and guidance—leaving commercial activity to those better equipped and empowered to undertake it.

3.9 NITI Aayog

NITI Aayog was established in 2015 by the NDA government. It is also known as the National Institution for Transforming India (NITI) and is touted as the policy think tank of Government of India. The main aim of establishing the Niti Aayog was to achieve sustainable development goals and to enhance cooperative federalism by nurturing involvement of State Governments of India in the economic policymaking process using a bottom-up approach. There have been various initiatives started by the Aayog, some of these initiatives are a 15-year road map, 7-year vision, strategy and action plan, AMRUT and Digital India. The establishment of the Niti Aayog had replaced the erstwhile Planning Commission which followed the top-down model. The Prime Minister is the ex-officio chairman of the Niti Aayog.

3.10 Summary

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A planned economy is an economic system in which the economy is directed by the state. It is an economic system in which the central government controls industry by making major decisions regarding the production and distribution of goods and services.

India's first Prime Minister, Jawaharlal Nehru set up the Planning Commission with a Government of India resolution in March 1950. The Planning Commission was set up in pursuance of the declared objectives of the government, which was to promote a swift rise in the standard of living of the people by the efficient utilization of the resources of the country, increasing production and offering opportunities to all for employment in the service of the community.

The 'Nehru-Mahalanobis Model' became the basis of the second five-year plan and continued to be guiding principle of all subsequent plans with small alterations until 1977 when the Janata Party came into power and conceived of the Gandhian model. The model was also conscious of the fact that enormous investments in heavy industry, although very important, would not increase employment significantly, since such investments were capital-intensive.

The restructuring of the Indian economy in the 1990s was an outcome of the unprecedented economic crisis that occurred in the nation in 1991. This economic crisis was the balance of payment crisis. The immediate causes of the crisis were the Gulf crisis and the global recession. However, the root cause of the crisis was the structure of the Indian economy itself. During the period of 1990–1991, India was also going through a period of political instability, which added fuel to the economic crisis.

The second five year plan brought positive as well as negative outcome. The positive achievements were in the field of Agriculture; increased momentum in Industrial sector and discovery of petroleum fields in certain parts of the country. The negative outcome was faced on Foreign exchange which experienced a severe drain and finally setback in planned electrification program in villages and towns.

Privatization in a narrow sense indicates transfer of ownership of a public sector undertaking to private sector, either wholly or partially. But in another sense, it implies the opening up of the private sector areas which were hitherto reserved for the public sector. Liberalization, globalization and privatization are all means to achieve certain ends of the society just as nationalisation and regulatory frameworks were intended to achieve certain goals. There is general agreement among all political parties that reforms are a historical necessity and it is not possible to reverse the reform process. Even the Left parties, after the collapse of the former Soviet Union, have accepted the

view that reforms in the form of liberalization, privatization and globalization will have to be undertaken.

The major aim of economic reforms is to improve the public sector so that the rate of return improves. To remedy the situation, it was necessary that overstaffing of the public sector undertakings be reduced. The government has already taken steps in this direction by its voluntary retirement scheme. The advocates of globalization limit the definition of globalization to only three components viz.; unhindered trade flows, capital flows and technology flows. They insist that the developing countries accept their definition of globalization and conduct the debate on globalization within the boundaries set by them.

NITI Aayog was established in 2015 by the NDA government. It is also known as the National Institution for Transforming India and is touted as the policy think tank of Government of India. The main aim of establishing the Niti Aayog was to achieve sustainable development goals and to enhance cooperative federalism.

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3.11 Keywords

- **Indicative Planning:** Planning by inducement is often referred to as indicative planning.
- **Standard and Poor (S&P):** A credit rating agency
- **The Vaidyanathan Committee:** Constituted under Prof R. Vaidyanathan to strengthen rural cooperative credit institutions.
- **Mandis:** Mandis are market set up by the state government for the sale of agricultural produce directly from the farmers.
- **LPG:** Liberalisation Privatisation Globalisation.
- **WTO:** World Trade Organisation.
- **NABARD:** National Bank for Agriculture & Rural Development.
- **MRTP Act:** Monopolistic and Restrictive Trade Practices (MRTP) Act, 1969, was enacted. to ensure that the operation of the economic system does not result in the concentration of economic power in hands of few.
- **Liquidation:** It implies sale of assets to a person who may use them for the same purpose or for some other purpose. This depends solely on the preference of the buyer.

3.12 Review Questions

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1. Discuss the objectives of Planning in India.
2. Discuss the merits of indicative planning with reference to the setting of goal for the Five-Year Plan.
3. Discuss some key factors that led to the severe economic crisis in 1991.
4. Explain any 3 FYP-objectives, achievements and outcome.
5. What is Planning commission?
6. What is meant by Rolling plan?
7. What happened during the years 1990-1992?
8. Name any 2 failed FYPs.
9. Discuss central government's role in opening India's economy.
10. Analyse in detail on the major purpose of liberalizing Indian economy.
11. Discuss the role of restructuring in privatization.
12. "The benefits of growth after reforms have not reached to the poor and weaker sections of the society." Explain this statement analytically.
13. Write a comprehensive report on Indian government's effort to reform the PSUs.
14. Analyse the main parameters of globalization.
15. "From nationalization to privatization, India's economic reforms are on right path." Explain this statement.

3.13 Further Readings

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UNIT–4

Indian Agriculture & Economy

Notes

(Structure)

4.1 Learning Objectives
4.2 Introduction
4.3 Significance of Agricultural Finance
4.4 Nature and Scope of Agricultural Finance
4.5 Agricultural Price Policy in India
4.6 Objectives of Agricultural Price Policy
4.7 Further Developments
4.8 Features of Agricultural Price Policy
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Notes

4.1 Learning Objectives

After studying the chapter, students will be able to:

- Explain about Agricultural Finance & its significance;
- Learn Agricultural Price policy & its objectives;
- Know Agricultural price policy in India;
- Small scale & Large scale Industries;
- Public sector & its objectives;
- Growth & Performance of Public sector;
- Various initiatives taken by the Government to improve Economy;
- Emerging Trends in Indian Economy.

4.2 Introduction

Agricultural finance generally means studying, examining and analysing the financial aspects pertaining to farm business, which is the core sector of India. The financial aspects include money matters relating to production of agricultural products and their disposal. Definition of Agricultural finance: Murray (1953) defined agricultural. finance as "an economic study of borrowing funds by farmers, the organization and operation of farm lending agencies and of society's interest in credit for agriculture." Tandon and Dhondyal (1962) defined agricultural, finance "as a branch of agricultural economics, which deals with and financial resources related to individual farm units."

Industrialization is the process by which an economy of a country is transformed from a primarily agricultural based one to one based on the manufacturing of goods

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replacing manual labour by mechanized mass production equipment .The Economic development of any country is based on the degree of Industrialization the country has achieved

Industrialization is usually associated with increases in total income of a nation and living standards in a society thereby boosting GDP. Industrialization is the basis for rapid Economic growth due to higher productivity levels than offered by Agriculture sector. Industrialization on the other hand also possess hidden problems like premature exhaustion of naturally occurring raw materials; Environmental pollution, unemployment & inequalities in earning potential. A careful balancing has to be done so that the negative impacts due to industrialization is kept bare minimum.

In India large scale Industrial growth to boost Indian Economy through self-reliant&selfsustained mode was pursued. The Industrial Policy to promote the above strategy relied on Import Substitution; Inward oriented Growth & a system of controls and subsidies.

After Indian Independence Industrial Policy framework focussed on development of public sector undertakings. After achieving reasonable growth, they could not sustain the growth rate but got slumped due to typical problems that can be expected in any government owned or public sector undertakings.

On the contrary private sector undertakings which came later were able to give better growth and profitability by focusing on utilization of better Technologies, deployment of skilled manpower , entering in to joint ventures with leading foreign companies etc., The per capita income of any country is strongly influenced by the magnitude of Industrialization in that country. Gulf countries whose main business is oil exports are an exception where per capita income is not dependent on manufacturing process. The distinguishing factor between developed and developing countries is related to the proportion of workforce deployed in industrial activity and the proportion of national output emanating from industrial sector.

The Economy of India is characterized as a middle income developing market economy. It is the world's fifth-largest economy by nominal GDP and the third-largest by purchasing power parity (PPP). According to the International Monetary Fund (IMF), on a per capita income basis, India ranked 142nd by GDP (nominal) and 124th by GDP (PPP) in 2020. From independence in 1947 until 1991, successive governments promoted protectionist economic policies with extensive state intervention and economic regulation, which is characterized by License Raj regime. The end of the Cold War and an acute balance of payments crisis in 1991 led to the adoption of a broad economic liberalization in India.

4.3 Significance of Agricultural Finance

Notes

1. Agricultural finance assumes vital and significant importance in the Agro – socio – economic development of the country both at macro and micro level.
2. It is playing a catalytic role in strengthening the farm business and augmenting the productivity of scarce resources. When newly developed potential seeds are combined with purchased inputs like fertilizers & plant protection chemicals in appropriate / requisite proportions will result in higher productivity.
3. Use of new technological inputs purchased through farm finance helps to increase the agricultural productivity.
4. Accretion to in farm assets and farm supporting infrastructure provided by large scale financial investment activities results in increased farm income levels leading to increased standard of living of rural masses.
5. Farm finance can also reduce the regional economic imbalances and is equally good at reducing the inter–farm asset and wealth variations.
6. Farm finance is like a lever with both forward and backward linkages to the economic development at micro and macro level.
7. As Indian agriculture is still traditional and subsistence in nature, agricultural finance is needed to create the supporting infrastructure for adoption of new technology.
8. Massive investment is needed to carry out major and minor irrigation projects, rural electrification, installation of fertilizer and pesticide plants, execution of agricultural promotional programmes and poverty alleviation programmes in the country.

4.4 Nature and Scope of Agricultural Finance

Agricultural finance generally means studying, examining and analysing the financial aspects pertaining to farm business, which is the core sector of India. The financial aspects include money matters relating to production of agricultural products and their disposal. Definition of Agricultural finance: Murray (1953) defined agricultural finance as "an economic study of borrowing funds by farmers, the organization and operation of farm lending agencies and of society's interest in credit for agriculture."

Tandon and Dhondyal (1962) defined agricultural. finance "as a branch of agricultural economics, which deals with and financial resources related to individual farm units." Nature and Scope: Agricultural finance studied at both micro and macro

level. Macrofinance deals with different sources of raising funds for agriculture as a whole in the economy. It is also concerned with the lending procedure, rules, regulations, monitoring and controlling of different agricultural credit institutions. Hence macro-finance is related to financing of agriculture at aggregate level.

Micro-finance refers to financial management of the individual farm business units. And it is concerned with the study as to how the individual farmer considers various sources of credit, quantum of credit to be borrowed from each source and how he allocates the same among the alternative uses with in the farm. It is also concerned with the future use of funds.

Therefore, macro-finance deals with the aspects relating to total credit needs of the agricultural sector, the terms and conditions under which the credit is available and the method of use of total credit for the development of agriculture, while micro-finance refers to the financial management of individual farm business.

Significance of Agricultural Finance

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agricultural promotional programmes and poverty alleviation programmes in the country. Credit needs in Agriculture – meaning, definition.

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4.5 Agricultural Price Policy in India

Agricultural Price policy plays a pioneer role in the economic development of a country. It is an important instrument for providing incentives to farmers for motivating them to go in for production oriented investment and technology.

In a developing country like India where majority of the population devotes 2/3 of its expenditure on food alone and where majority of the population is engaged in agricultural sector, prices affect both income and consumption of the cultivators. The Govt. of India announces each year procurement/support prices for majoragricultural commodities and organizes purchase operations through public agencies.

Undoubtedly, violent fluctuations in agricultural prices have harmful results. For instance, a steep decline in the price of particular crop in few years can inflict heavy losses on the growers of that crop. This will not only reduce the income but also dampen the spirit to cultivate the same crop in the coming year. If this happens to be a staple food item of the people, supply will remain below the demand.

This will force the Govt. to fill the gap by restoring imports (in case of no buffer stock). If, on the other hand, prices of a particular crop increase rapidly in the particular period, them the consumer will definitely suffer. In case, the prices continuously increase for the particular crop, this can have disastrous effect on the sector of the economy. Agricultural price policy in India was introduced since independence has varied widely for different years and also for different crops. This policy put much emphasis on the prices of food grains like wheat, rice and coarse cereals such as jowar, bajra, maize etc.

Need of Agricultural Price Policy

Movement of price is a common feature. But rapid and violent movement or fluctuations in the prices of agricultural commodities have serious consequences on the economy of the country. As the sudden steep fall in the price of a particular crop, result in huge loss to the farmers producing that crop as their income declines.

This will force the farmers not to cultivate the crop next year leading to a serious shortage in the supply of that food item and that may force the government to import that food crop from foreign countries.

Alternatively, a sudden hike in the price of a particular crop may cause huge suffering to the consumers which may force the consumers to discard it or to curtail their other expenditure substantially for meeting the consumption expenditure on that

crop. In both ways, the large scale fluctuation in the price of agricultural produce will create a disastrous effect on the economy of the country.

Price policy of the government for agricultural produce seeks to ensure remunerative prices to growers for their produce in order to encourage higher investment and production and also for safeguarding the interests of consumers by making available food supplies at reasonable prices.

The price policy of the country also seeks to evolve a balanced and integrated price structure in keeping with the overall needs of the economy. In order to achieve this end, the government announces minimum support prices (MSPs) for major agricultural commodities in each season and also organises purchase operations through the Food Corporations of India (FCI), and cooperative and other agencies designated by state governments for the purpose.

In order to safeguard the interest of both producers and consumers a comprehensive agricultural price policy must be suitably formulated. This should be supported by maintaining buffer stocks of agricultural commodities along with the extensive network of public distribution system.

These will provide a minimum support price to the producers and arrange the supply of these agricultural produce to the consumers at fair prices. Thus while fixing the minimum support prices and procurement prices care must be taken to fix those prices at such level which will induce the farmers to produce more. Thus; the agricultural price policy can be designed as an "instrument of growth".

4.6 Objectives of Agricultural Price Policy

In India, the price policy was first introduced in 1947 with the formation of Food grains Policy Committee which recommended a policy of progressive decontrol, reduction of imports or food grains and substantial increase in the production of food grains. Again in 1950, Food grains Procurement Committee was appointed which introduced the system of rationing and control in the supply of food grains in the country.

The main objective of the initial Price policy in India was to protect the interests of consumers. In this policy no attention was paid to provide incentive price to farmers. It was only in 1964, a clear-cut policy was introduced for providing incentive price to farmers. The main Objective of Agricultural price policy of the country have the following features:

(1) To protect or insure the producer through guaranteed minimum support price, which as a stabilisation measure reduces the variability in product prices and

therefore price risk of the farmers. The impact of the risk reduction is expected to induce farmers to undertake large investments and to adopt improved production technology.

(2) To induce the desired outputs of different crops according to growth targets.

(3) To induce an increase in aggregate agricultural output through large input use and adoption of high yielding seed, fertilizer and water responsive technology.

(4) To induce farmers to part with a large proportion of food grains production as a marketed surplus.

(5) To protect the consumer against the excessive rise in prices, especially to protect the low income consumers in periods when supplies lag behind demand and market prices rise continuously".

The Third Plan document rightly observed that, "The producer of food grains must get a reasonable return. The farmer, in other words, should be assured that the prices of food grains and the commodities that he produces will not be allowed to fall below reasonable minimum." Accordingly, the food grains Price Committee was appointed in 1964.

This committee recommended various measures such as:

(a) Introduction of rationing in major cities,

(b) Establishing lower prices through lower prices or Fair price shops,

(c) Acquisition of control over adequate stocks,

(d) Withdrawing restrictions of inter-state movement of food grains,

(e) Imposing regulation and licensing of wholesale trade of food grains and finally strengthening of the administrative machinery in the States.

Again as per the recommendation of this committee, the Agricultural Price Commission was set up in 1965.

4.7 Further Developments

In 1966, the government appointed another food grains Policy Committee which recommended the following matter in connection with the prices of agricultural commodities:

1. In order to create a favourable condition for increasing production, the government should announce the minimum support prices well in advance of the sowing season.
2. Procurement price should be higher than support price so that it can offer proper incentive to the producer and reasonable price to consumer.

3. To create a favourable climate for long-term investment, minimum support prices should be fairly stable.
4. Making adequate marketing arrangement for making purchases at minimum support prices.

*Moreover, in 1965, the Food Corporation of India (FCI) was set up for making necessary procurement, storage and distribution of food grains. In 1989-90, total capital employed in FCI was to the extent of ₹ 5,138 crore with its total storage capacity at 18 million tonnes.

*The policy of minimum support prices was accepted by the Fourth Plan but its effectiveness depends on the efficacy of the purchasing machinery like FCI and State Trading Corporation (STC). The Fifth Plan also formulated the agricultural price policy in order to meet two important considerations, i.e., firstly for providing incentive for sustained and higher agricultural production and secondly for inducing the farmers to plan the production of various crops as per estimated demand through discriminating manipulation of intercrop prices relationship.

In order to build up buffer stocks, various public sector organisations would announce purchase prices at different times which would be higher than minimum support prices. Again, the Sixth Plan realised the importance of price policy for agricultural development on the following grounds "Firstly, modern agriculture increasingly involves the use of costly inputs as part of improved technology and hence an assured minimum prices becomes a necessary underpinning for sustained agricultural production. Secondly, price policy is an important tool for facilitating crop planning, an aspect which so far has not received adequate attention in the country. Finally, price policy can be geared towards community are not eroded by continuing unfavourable terms of trade between the agricultural sector and non-agricultural sector."

To fulfil this last consideration necessary arrangement was made for amending the terms of reference of the Agricultural Prices Commission and the commission was advised to take care of movement in terms of trade.

The Seventh Plan realised the importance of rationally determined support prices for wheat and rice in reducing price fluctuations, raising profitability and stimulating growth of output. The Plan argued to introduce such systems for coarse grains, pulses and oilseeds and also agreed to determine the appropriate relative prices of different types of crops in order to make provision for efficient use of resources in the country.

At present, the government decides on the MSPs for various agricultural commodities taking into account the recommendations of the Commission for Agricultural Costs and

Prices (CACP), the views of state governments and central ministries as well as such other relevant factors which are considered important for fixation of support prices for agricultural commodities.

Notes

4.8 Features of Agricultural Price Policy

Following are some of the important features of agricultural price policy followed by the

Government of India since independence

(i) ***Setting up Institutions:*** The Government of India has set up some institutions for the implementation of agricultural price policy in the country. Accordingly, the Agricultural Price Commission was set up in 1965 which announced the minimum support prices and procurement prices for the agricultural products. In 1985, the name of this institution was changed into Agricultural Cost and Prices Commission. Moreover, the food grains Policy Committee was appointed by the Government in 1966 which also recommended various measures of price support.

FCI: The Food Corporation of India was set up in 1965 for making necessary procurement, storage and distribution of food grains. In 1989-90, total capital employed in FCI was to the extent of ₹ 5138 crore with its total storage capacity at 18 million tonnes. The corporation organises the price of food grains at government determined prices and sale these food stocks through the network distribution system.

(ii) ***Minimum Support Price:*** The government fixes the minimum support prices of agricultural products like wheat, rice, maize, cotton, sugarcane, pulses etc., regularly for safeguarding the interest of farmers. The FCI also make their purchases of food grains at the procurement prices so as to maintain a ratio.

Marketing Season	MSP of Wheat MSP+Bonus	MSP of Coarse grains						
		Paddy	Jowar Hybrid	Jowar Maldandi	Bajra	Maize	Ragi	Barley
2013-14	1350	1310	1500	1520	1250	1310	1500	980
2014-15	1400	1360	1530	1550	1250	1310	1550	1100
2015-16	1450	1410	1530	1590	1275	1325	1650	1150
2016-17	1525	1470	1625	1650	1330	1365	1725	1225
2017-18	1625	1550	1700	1725	1425	1425	1900	1325
2018-19	1735	1750	2430	2450	1950	1700	2897	1410
2019-20	1840	1815	–	–	–	–	–	1440

(iii) Protecting the Consumers: In order to safeguard the interest of the consumers, the agricultural price policy has made provision for buffer stock of food grains for its distribution among the consumers through public distribution system.

(iv) Fixation of Maximum Prices: In order to have a control over the prices of essential commodities the government usually determines the maximum price of agricultural products so as to protect the general people from exorbitant rise in prices.

Measures Introduced for Enforcing Agricultural Price Policy

Thus the agricultural price policy which was introduced just after independence made a compromise with the situation and followed a variable policy of progressive decontrol in 1947 and then a partial control in 1955. Then in 1959, the government introduced the state trading in food grains particularly in rice and when

After that in 1964, the government introduced food zones for imposing restriction on the movement of food grains from one zone to another in order to enforce stability in agricultural prices.

In 1965, the Agricultural Price Commission was set up which announced the minimum support prices and procurement prices in the successive years in order to guarantee minimum prices to the producers and for building up buffer stocks to maintain the public distribution system.

The minimum support price for wheat which was fixed at ₹ 37.50 per quintal in 1964-65 gradually raised to ₹ 50 per quintal in 1965-66 and then to ₹ 350 per quintal in 1993-94. The procurement price for paddy per quintal was also gradually raised from ₹77 in 1977- 78 to ₹ 230 in 1991-92.

The procurement price for coarse grains was also raised from ₹ 48.29 per quintal in 1965-66 to ₹ 205 in 1991-92. While fixing these procurement prices, the large farmers' lobby has played an important role in its decision making. Again in order to meet the minimum needs of the weaker sections of the society, the rationing system through public distribution system was introduced in India and accordingly the total number of fair price shops has also increased from 2.39 lakh in 1979 to 3.54 lakh in 1980. This public distribution system has been handling about 19 million tonnes of food grains.

NAFED is also an important agency which appoints state agencies for undertaking Price Support Scheme (PSS) operations. The losses, if any, incurred by central agencies on undertaking PSS operations are reimbursed up to 15 per cent by the Central Government. Apart from this, government also provides working capital to the central agencies for undertaking PSS operations.

Notes

Moreover, the government also implements Market Intervention Scheme (MIS) for horticultural and agricultural commodities, especially perishable in nature and not covered under the PSS which helps the farmer to get remunerative prices for their produce. The MIS is contingent on the basis of specific request of a State or Union Territory (UT) government which is just ready to bear 50 per cent (25 per cent in respect of north-eastern states), if any, incurred on its implementation.

However, the loss in such case is restricted up to 25 per cent of total procurement value. However, the profit earned, if any in implementing the MIS is retained by the procuring agencies.

Moreover, in order to ensure a minimum remunerative price to the farmers some other steps were also followed by the government which included state trading, building up of buffer stocks, nationalisation of wholesale trade in wheat and rice, procurement from wholesalers, import of foodgrains etc.

4.9 Evaluation of Agricultural Price Policy

The agricultural price policy in India has succeeded in establishing certainty and confidence in respect of the prices of agricultural commodities through the fixation of minimum support prices by Agricultural Prices Commission (later on renamed as Commission for Agricultural Costs and Prices).

But due to the variations in the degree of enforcement of procurement in different years, some degree of uncertainty and instability in prices were experienced by the Indian farmers. Again raising the minimum support prices and procurement prices offered incentive to the producers to increase their production but these benefits were mostly restricted to large farmers. Moreover, the public distribution system in India is also subjected to various limitations such as its restricted operation in wheat and rice only, insufficient coverage of rural areas, inadequate coverage of the people lying below the poverty line and it's too much expensiveness due to lack of targeting.

As argued by several economists, continuous increase in the procurement prices has resulted a spurt to inflationary pressures in the economy. This increase in the price of food grains has also resulted in huge hardships to the rural poor consisting of marginal farmers and landless labourers who constitute the bulk of rural population.

Moreover, the fixing of uniform purchase price for the country on the basis of cost of production of huge cost states by the Commission for Agricultural Costs and Prices has benefitted the developed states having low average cost of production such as Punjab, Haryana etc. Thus, the policy had a bias in favour of the rich states at the cost of consumers in general.

4.10 Effects of Agricultural Price Policy

Important effects of Agricultural Price Policy are as follows:

(i) **Incentive to Increase Production:** Agricultural price policy has been providing necessary incentive to the farmers for raising their agricultural output through modernisation of the sector. The minimum support price should be determined effectively by the government which will safeguard the interest of the farmers. Accordingly, minimum support price of food grains fixed by the government increased from ₹ 388.26 per quintal in 2003-04 to ₹ 429.27 in 2007-08 and then to ₹ 829.94 (at average) in 2012-13

(ii) **Increase in the Level of Income of Farmers:** The agricultural price policy has provided necessary benefit to the farmers by providing necessary encouragement and incentives to raise their output and also by supporting its prices. All these have resulted in an increase in the level of income of farmers as well as their living standards.

(iii) **Change in Cropping Pattern:** The agricultural price policy has resulted in a considerable change in cropping pattern of Indian agriculture. The production of wheat and rice has increased considerably through the adoption of modern techniques by getting necessary support from the Governments. But the production of pulses and oilseeds could not achieve any considerable change in the absence of such price support.

(iv) **Benefit to Consumers:** The policy has also resulted in considerable benefit to the consumers by supplying the essential agricultural commodities at reasonable price regularly.

(v) **Benefit to Industries:** The agricultural price policy has also benefitted the agro industries of the country, like sugar, cotton textile, vegetable oil etc. By stabilising the prices of agricultural commodities, the policy has made provision for adequate quantity of raw materials for the agro industries of the country at reasonable prices.

(vi) **Price Stability:** The agricultural price policy has stabilised the prices of agricultural products to a large extent. It has become successful to contain the undue fluctuation of prices of agricultural products. This has created a favourable impact on both the consumers and producers of the country.

4.11 Suggestions for Rationalisation of Agriculture Price Policy

Following are some of important suggestions which can be advanced for the rationalisation of agricultural price policy of the country:

Notes

(i) **Establishment of Some More Agencies:** Apart from Food Corporation of India, some more agencies should be set up for ensuring rational prices of other agricultural products and also for procuring other agricultural products. In the meantime, the government has already set up Cotton Corporation and Jute Corporation, which needs to be further strengthened. Moreover, the government should set up a separate agency for providing necessary minimum price support to perishable commodities like potato and other vegetables, fruit, etc., considering its growing potential market both for internal consumption and exports. The operational efficiency of existing agencies like FCI should be improved.

(ii) **Extension of the Price Policy:** The agricultural price policy should be extended to cover more commodities over and above the 15 commodities covered at present. The commodities like pulses, potato, onion and other important vegetables and fruits may also be covered.

(iii) **Rationalisation of Price Fixation:** The prices of agricultural commodities should be fixed in the most rational manner so that it could cover the entire costs of production. While fixing the prices, the increasing cost of agricultural input should be taken into consideration.

(iv) **Protection of Consumers:** The agricultural prices should be so determined that it can also protect the interest of the general consumers.

(v) **Modernisation:** The agricultural price policy should be framed in such a manner so that it can induce the farmers to go for modernisation of their agricultural practices.

(vi) **Improvement in Agricultural Marketing:** In order to ensure the success of the agricultural price policy, the improvement of the agricultural marketing system is very important. The farmers should be set free from the clutches of middlemen and all intermediaries.

(vii) **Improvement of PDS:** The public distribution system should be improved so as to ensure a success in the operation of agricultural price policy. The operation of fair price shops should be streamlined and be made more efficient and transparent.

4.12 New Agricultural Policy

1. **Facilities for All-Round Development:** In order to accelerate the pace of development, the new agricultural policy has set an objective to augment facilities for processing, marketing, storage, irrigation, along with development

of horticulture, fisheries, biomass, livestock, sericulture etc. for all round development of agricultural sector.

2. **Infrastructural Development:** The new policy favoured to make the provision for infrastructural development related to agriculture and thereby to infuse new dynamism through increased volume of public investment.
3. **Revising and Strengthening Co-Operatives:** The policy also aims at reviving and strengthening Co-operatives and local communities for the development of agriculture.
4. **Involvement of NGOs:** The policy also aims at involving the nongovernment organisations on a large scale for the development of agricultural sector.
5. **Encouragement:** The policy aims at providing necessary support, encouragement and thrust on farming activities so that rural people accept it as a noble and viable occupation.

Features of New Agricultural Policy:

The important measures or features of new agricultural policy are summarized as under:

(i) **Raising Capital Formation:** The new policy has undertaken a strategy to raise the rate of capital formation in agricultural sector as the same is maintaining a decreasing trend from 18.7 per cent of total gross capital formation in 1978-79 to only 9.5 per cent in 1993-94.

As the invisible resources are being diverted from agriculture to industry and sectors, the new policy, thus introduces measures to recanalize available resources for productive investment in the sector. The policy will focus to create a better investment climate for the farmers by introducing a favourable price and trade regime.

(ii) **Enhancing Public Investment:** In order to raise the volume of public investment, new agricultural policy will take steps to create public investment for building supportive infrastructure for agriculture. Conservation of water and use of alternative and renewable sources of energy for irrigation and other agricultural works have also been encouraged. Such enhancement of infrastructural investment will reduce the regional imbalances and generates more value added exportable surpluses.

(iii) **Raising the Flow of Credit:** The policy will make an attempt to enhance the flow of credit to the agricultural sector. In this connection, the Co-operative credit societies were engaged for such purpose.

Notes

(iv) **Improving Agricultural Marketing:** An attempt will be made to improve the marketing arrangement of agricultural produce through agro- processing, marketing and storage.

(v) **Ensuring Remunerative Prices:** The new policy has entrusted the Government to undertake responsibility for ensuring remunerative prices of agricultural produce to the farming community by adopting necessary price support policy.

(vi) **Raising Agro-Export:** The new policy has made an attempt for harnessing the comparative natural advantage in agricultural export of the country. The policy has laid special thrust on the exports of fruits, vegetables, flowers, poultry and livestock products so as to raise the share of agricultural exports.

(vii) **Land Reforms:** he new policy will make efforts to take land reform measures for the interest of small and marginal farmers and raise agricultural output.

(viii) **Development of Land:** The policy has made an attempt to develop land permanently for cultivation to meet the growing needs of population. In order to develop rainfed areas of the country watershed management scheme has been given much importance so as to bring integrated development of the land.

(ix) **Treating Agriculture at Par with Industry:** The steps for creating a positive trade and investment climate for agriculture and also to treat agriculture at par with industry for the purpose will be taken.

(x) **Crop Insurance Scheme:** Considering the problems of crop failure and high risk of instability in production, the policy stressed for redesigning the crop and livestock insurance schemes in a comprehensive manner so that the farmers can recover their losses arising out of natural disasters.

4.13 Recent Developments in Agricultural Policy

The contribution of agriculture to the country's Gross Value Added (GVA) at basic prices (2011-12 prices) is only 14% while nearly 47% of its population is engaged in the agriculture sector.

Contrast this with non-agriculture which contributes 86% to GVA with 53% workforce. Implicit in this is Agri-labour productivity is just 19% compared to that of non- agriculture which gets reflected in low levels of farm income compared to non-farm incomes. Though the country has moved from import-dependence to self-sufficiency and to a food exporting country, there has been no concomitant and equally commensurate impact on farmer's incomes. There is, therefore, a need to reorient Agri-policy to transform farmers' lives.

The Union Government and the state governments together should adopt a seven-pronged strategy to enable farmers to 'board the aeroplane'. Amid the coronavirus lockdown across the country that brought economic activity to a near halt, the Modi government is expecting that agriculture sector could be a silver lining for the Indian economy as it is estimated to grow at a rate of 3 per cent for the year 2020-21, according to NITI Aayog.

The three bills that were passed are the Farmers' Produce Trade and Commerce (Promotion and Facilitation) Bill, Farmers (Empowerment and Protection) Agreement on Price Assurance and Farm Services Bill and Essential Commodities (Amendment) Bill.

The government said that the bills would transform the agriculture sector. It would also raise the farmers' income, the Centre said. Further, the government had also promised to double farmers' income by 2022 and the Centre said that the Bills will make the farmer independent of government-controlled markets and fetch them a better price for their produce.

The Bills propose to create a system in which the farmers and traders can sell their purchase outside the Mandis. Further, it also encourages intra-state trade and this proposes to reduce the cost of transportation.

Further, the Bill formulates a framework on the agreements that enable farmers to engage with agri-business companies, retailers, exporters for service and sale of products while giving the farmer access to modern technology.

It also provides benefits for the small and marginal farmers with less than five hectares of land. The Bill also will remove items such as cereals and pulses from the list of essential commodities and attract FDI.

- To create an ecosystem where farmers and traders enjoy the freedom to sell and purchase farm produce outside registered 'mandis' under state APMCs.
- To promote barrier-free inter-state and intra-state trade of farmers' produce
- To reduce marketing/transportation costs and help farmers in getting better prices
- To provide a facilitative framework for electronic trading.
- Farmers can enter into a contract with agribusiness firms, processors, wholesalers, exporters or large retailers for the sale of future farming produce at a pre-agreed price.
- Marginal and small farmers, with land less than five hectares, to gain via aggregation and contract (Marginal and small farmers account for 86% of total farmers in India)

- To transfer the risk of market unpredictability from farmers to sponsors
- To enable farmers to access modern tech and get better inputs
- To reduce the cost of marketing and boost farmer's income.
- Farmers can engage in direct marketing by eliminating intermediaries for full price realisation.

Notes

It aims at opening up agricultural sale and marketing outside the notified Agricultural. Produce Market Committee or APMC mandis for farmers. It removes barriers to inter-State trade and provides a framework for electronic trading of agricultural produce. It also prohibits state governments from collecting the market fee, cess or levy for trade outside the APMC markets.

This Bill relates to contract farming, providing a framework on trade agreements for the sale and purchase of farm produce.

Further, the Bill formulates a framework on the agreements that enable farmers to engage with agri-business companies, retailers, exporters for service and sale of products while giving the farmer access to modern technology.

It also provides benefits for the small and marginal farmers with less than five hectares of land. The Bill also will remove items such as cereals and pulses from the list of essential commodities and attract FDI. The Centre had promised to double farmers' income by 2022. It says the Bills will make farmers independent of government-controlled markets and fetch them a better price for their produce.

4.14 NABARD

Origin of National Bank for Agricultural and Rural Development (NABARD):

The Agricultural Refinance and Development Corporation (ARDC) which was created to take care of f direct financing and delivery of rural credit against the massive credit demand for rural development could not achieve the desired results. As a result many committees and commissions were constituted like,

- Banking commission in 1972
- National Commission on Agriculture (NCA) in 1976
- Committee to Review Arrangements for Institutional Credit in Agricultural and Rural Development (CRAFICARD) in 1979.

This CRAFICARD, under the chairmanship of Sri. B. Sivaraman, a former member of planning commission recommended the setting up of a national level institution called NABARD for providing all types of production and investment credit for agriculture and rural development.

As a result of CRAFICARD'S recommendations NABARD came into existence on July 12th, 1982. The then existing national level institutions such as Agricultural Refinance and Development Corporation (ARDC), Agricultural Credit Department (ACD) and Rural Planning and Credit Cell (RPCC) of RBI were merged with NABARD with a share capital of ₹500 crore equally contributed by Government of India and RBI. NABARD operates through its head office at Mumbai and 17 regional offices one each in major states, 10 suboffices in smaller states / U.Ts and 213 district offices.

Board of Management

Central Government in consultation with RBI appoints all the directors in the "Board of Management "along with the chairman and the managing director (MD). The M.D. is the chief executive officer (C.E.O) of NABARD and he is primarily responsible for the various operations of the bank. Apart from M.D and Chairman, the Board of Management consists of 13 other directors and these directors will act as "Advisory council" of NABARD.

Of the 13 directors of Advisory council

- 2 are experts in rural economics and rural development.
- 3 are representatives of co-operatives
- 3 are representatives of commercial banks
- 3 are the officials of Government of India
- 2 officials belong to State Governments

Sources of funds:

Authorized share capital of NABARD is Rs. 500 crore equally contributed by Government of India and RBI and Issued and paid up capital of Rs. 100 crore.

Other sources are:

- Borrowings from Government of India (GOI) and any institution approved by GOI
- Borrowings from RBI
- Deposits from state governments and local authorities
- Gifts and grants received.

Objectives of NABARD:

- As an apex refinancing institution, NABARD survey and estimates all types of credit needed for the farm sector and rural development
- Taking responsibility of promoting and integrating rural development activities through refinance.

Notes

- With the approval of Government of India, NABARD also provides direct credit to any institution or organization or an individual.
- Maintaining close links with RBI for guidance and assistance in financial matters.
- Acting as an effective catalytic agent for rural development i.e., in formulating appropriate rural development plans and policies.

Functions of NABARD

The functions of NABARD are broadly categorized as:

(a) Credit activities (b) Development activities, and (c) Regulatory activities

(a) Credit activities:

- NABARD prepares for each district a potential linked credit plan annually and this forms the basis for district credit plan.
- It participates in finalization of annual action plan at block, district and state level.
- It monitors the implementation of credit plans.
- It frames the terms and conditions to be followed by credit institutions in financing rural farm and non- farm sectors.
- It provides refinance facilities.

  Refinance is of two types: Short-term refinance is extended for agricultural production operations and marketing of crops by farmers and farmers' cooperatives and production and marketing activities of village and cottage industries. The eligible institutions for short term refinance are state cooperative banks (SCBs), regional rural banks, commercial banks and other banks approved by RBI. The time period is 12 months.

  Medium term and long-term refinance are extended for investments in agriculture and allied activities such as minor irrigation, farm mechanization, dairy, horticulture and for investment activities of rural artisans, small scale industries (SSI) etc. The period is up to a maximum of 15 years. The eligible institutions are land development banks (LDBs). The extent of refinance under various schemes is

- Pilot rainfed farming projects (100%)
- Wasteland development scheme of individuals (100%)
- Non-farm sector schemes (outside the purview of IRDP) 100%
- Agro-processing units (75%)

- Bio-gas scheme (75%)
- All other schemes including IRDP (70%)
- Farm mechanization (50%)
- Rural Electrification Corporation (50%)
- Apart from refinance, NABARD also provides direct finance to state governments, state sponsored corporations.

NABARD will monitor its assisted projects in order to ensure their proper implementation. It also undertakes consultancy work for projects even though they are not refinanced by NABARD.

(b) **Development activities:** For the productive use of credit the following developmental activities are under taken by NABARD.

- Institutional development: Providing financial assistance for establishment and development of institutional financial agencies.
- Research and Development Fund: Providing funds for research and development efforts of institutional financial agencies.
- Agricultural and Rural Enterprises Incubation Fund (AREIF): For providing assistance while inception of new enterprises.
- Rural Promotion Corpus Fund (RPCF): It is meant to provide financial assistance for training – cum production centers, rural entrepreneurship development programmes, and technical monitoring and evaluation centers.
- Credit and Financial Services Fund (CFSF): It aims at providing assistance for innovations in rural banking and credit system, supports institutions for research activities, surveys, meets etc.
- Linking SHGs to credit institutions: During the year 1992, NABARD started the pilot project of linking SHGs to credit institutions. Under this, it provides 100 per cent refinance to banks for loans extended to SHGs.

(c) Regulatory activities

As an apex development bank, NABARD shares with RBI, some of the regulatory and supervisory functions in respect of cooperative banks and regional rural banks (RRBs).

They are:

- Under Banking regulation act 1949, NABARD undertakes the inspection of RRBs and cooperative banks (other than PACs)
- Any RRB or cooperative bank seeking permission of RBI, for opening branches needs recommendation of NABARD.

- The state and district central cooperative banks also need an authorization from NABARD for extending assistance to units outside the cooperative sector and non-credit cooperatives for certain purposes beyond the cut-off limit.

Notes

4.15 Activities and services Undertaken by NABARD to Perform Various Functions

NABARD undertakes following Activities to discharge Credit Functions. NABARD formulates the guidelines for the functioning of the financial institutions in rural India. It issues credit facilities to these financial institutions; Supervises the flow of rural credit at the ground level;It devises annual credit plans for several districts in order to identify credit potential.

Activities to discharge Developmental Functions

- It assists the rural credit institutions like RRBs and cooperative banks to formulate development actions schemes for themselves.
- To better the affairs of the Regional Rural Banks, NABARD assists them in signing Memorandums of Understanding with the Governments and cooperative banks.
- NABARD also keeps a check to ensure that development action plans of banks are being implemented properly.
- It also extends its support financially to aid the training institutes of commercial banks, RRBs and cooperative banks.
- For the improvisation of the management information system, development of human resource and to computerize the operations of cooperative banks, NABARD extends its financial support.

Activities to discharge Supervisory Functions

- As per the provisions of Banking Regulation Act, 1949, NABARD, inspects RRBs and Cooperative Banks.
- It volunteers to carry out inspections of the non- credit cooperative societies and the State Cooperative Agriculture and Rural Development Banks (SCARDBs).
- It gives its recommendations and suggestions to the Reserve Bank with regards to licensing of Cooperative Banks and setting up of new branches of RBBs and State Cooperative Banks.
- Apart from off-site surveillance, it undertakes portfolio inspections of RBBs and Cooperative Banks.

Summing Up

In a nutshell, NABARD for fulfilling its role as a facilitator of rural prosperity and is entrusted with the refinancing of credit institutions in rural areas, stimulating institutional development and evaluation and inspection of customer banks.

NABARD introduced a novel direct lending facility under 'Umbrella Programme for Natural Resource Management' in 2007-2008. This Programme offers loans at reasonable rates of interest to provide financial aid for natural resource management projects. Already loan amount of about Rs 1000 crore has been granted to 35 projects. Some of the projects that have been sanctioned are: (i) Collection of honey in Maharashtra by the tribal community (ii) Tussah value chain by a women producer company ('MASUTA') (iii) ecotourism in Karnataka etc.

With regards to rural developments, the contribution of NABARD has been exceptional. NABARD, having been set up as the apex Development Bank mandating the facilitation of credit flow by the Government of India for improving and promoting agriculture and other village industries, sanctioned agricultural credit flow of ₹ 1,57,480 crore in 2005-2006. It is expected that the GDP will grow at 8.4%. The Indian economy in its entirety is ready for stronger and faster growth in the coming years. NABARD's role in the overall development of India in general and rural and agricultural in particular is very vital.

4.16 Industrialisation

Industrialization is a process by which the main national income is shifting from agriculture sector to industrial sector.

- Industrialization can bring economic developments to any country provided.
- Proven Technologies either developed internally or outsourced from foreign countries are deployed to ensure best manufacturing efficiencies.
- Quality Management systems to ensure quality & on time delivery aspects of manufactured goods.
- Meeting customer needs & keeping them satisfied.
- Robust fund management systems so that cash flow requirements & needed finance to run the industry is taken care.
- Complying with all Statutory requirements so that sustainability of the industry is ensured.

4.17 Guiding Factors for Rapid Industrialisation

Notes

Rapid Industrialization is required to make India self-sufficient and self-reliable for fulfilling all her needs and requirements. As India is predominantly an Agricultural country, about two thirds of the population is dependent on Agriculture. Since Agriculture cannot support the growing population, industries need to be established to solve the problem of unemployment.

Industries give support to Agriculture. For example: Agricultural implements are manufactured by various Industries. Rapid Industrialization is required to keep pace with the technological advancements which have been made in the world.

Now let us review the various Guiding Factors for Rapid Industrialization

Labour Productivity: Productivity is high from industrial labour front due to

(a) Sophisticated Supporting Equipment that enable faster production rate & at the same time eliminating monotonous activity.

(b) Improved working conditions & better pay structure that boosts the morale of working men.

(c) Better training facilities & standard operating procedures that eliminate product quality failures.

(d) Assured market outlets that ensures continuous production without any interruption.

(e) Increased focus on health & safe working conditions of working manpower.

Employment Generation: With increased productivity & better product turnout more material will be available in the market. More ancillary industries will crop up to support big industries which in turn need additional manpower which are to be drawn out from villages & urban areas. With more employment & more money in circulation Economy of the country will increase.

Resource Mobilization: Mobilization of Resources needed for an Industry is easier than in agricultural sector. There is no organized set up for funding agricultural needs Finance can be organized only through Banks. In case of industries various financial institutions are available for meeting the fund requirements.

Thus by providing adequate funding resources Industrialization can be speeded up thereby paving way for rapid economic development.

4.18 Hindering Factors of Rapid Industrialisation

There are various Factors that hinder the process of Industrialization in a developing Economy as given below:

Economic Factors:

(a) Scarcity of capital is the most predominant problem in developing countries due to poor national economy &GDP. This adversely affects industrialization.

(b) Infrastructure facilities like Road connectivity, communication facility &Logistics which are essential for Industrial development will be generally inadequate.

(c) Availability of quality raw materials & their continued availability at an affordable cost isahindrance.

(d) Absence of small industries that can Utilise by - products from core industries is another obstacle.

(e) Pollution abatement facilities which are generally expensive cannot be afforded by all industries.

(f) Lack of financial Support from Banks & Financial institutions to meet working capital requirements.

(g) Adjusting to various type of Market variations.

(h) Non - Availability of indigenous Technology to address production quantity& quality related issues.

(i) Inadequate Training facility to develop the skill levels of working labour for the type of end product requirements.

(j) Intense competition on the market front resulting in poor profit margins.

(k) Inordinate delays from various consumers in making payments for the goods received from Manufacturers.

Administrative Factors

1. Administrative inefficiencies & mismanagement which are predominant in Public sector undertakings lead to recurring losses.
2. Frequent changes in foreign exchange rates; customs& Excise as well as tax policies, Variations in GST rates discourage industrialists as well as prospective investors to make investments in new industries.
3. Improper & unrealistic labour legislation which gives undue protection to labour force but fails to ensure productivity from them. The industry owners are in trouble to get the required output from labour force.

International Factors

(a) Competition from foreign countries who have low energy & labour costs and availability of raw materials in plenty.

(b) Imposition of custom barriers by developed countries.

(c) Imposition of anti -dumping duties & abnormal import duties to discourage imports.

Notes

Socio-Demographic Factors

Regarding social factor the social attitudes in developing economies hinder the production growth by influencing the supply of various productive factors like labour, capital & industrial expertise.

The fast rising population is a major hindrance on the demographic front.

Industrial Development in India

The pattern of Industrial growth in India in the last six decades can be reviewed as under Between 1965-66:

The Early Growth phase : During this period also termed as 'Industrial Growth with Regulation' there was appreciable Industrial growth in the first two decades & that too under second and third plan. This is due to the following reasons

(a) Importance given to Industrialization in Economic policies followed by pursuit of Industrial growth in Industrial policy and planning.

(b) Huge investments made especially in public sector undertakings both in infrastructure development & capacity augmentation.

(c) Spurt in demands for a variety of products from middle- and lower-income groups.

(d) Capital needed for industrialisation met from internal resources as well as investments from foreign countries.

Slow down phase-1970 s: Industrial growth slumped after third plan leading to stagnation. Ignoring basic and capital goods industries the focus was on manmade fibres, beverages, perfumes & cosmetics resulting in drop in per capita income as well as plunging more people below poverty line.

Four major reasons for the slow growth:

(a) Slowdown in public investment especially on the infrastructure development.

(b) Slow growth in agriculture sector resulting in lower incomes & reduction in buying power in buying needed goods.

(c) Poor management in infrastructure sectors resulting in stagnation in growth.

(d) Failure in having good industrial policy framework in place.

Revival period in 1980s: Industrial growth rate started moving up from the stagnation stage from 1980s. Major contributing factors for this upswing in industrial progress is due to

(a) Liberal fiscal regime triggered in 1980 gained momentum by 1985 resulting in rapid investment in Industrial sector.

(b) Apart from public investment, private sector played a key role in boosting up industrial investments.

(c) Import of capital goods which shot up in 1980s which paved the way for flow of huge investments.

(d) Better performance from infrastructure development sectors.

Notes

Recession during 1991-94: Starting from 1991 -92 and sailing through 1992-93 there was recession which got extended till 1993-94.

Revival followed by Recession in 1994-2002: The Recession during 1991-94 was for a short duration only in view of counter measures taken by government on the Macro Economic front.

The revival can be attributed to the following factors:

(a) Increased Govt. Expenditure & Public investment: The govt. expenditure on infrastructure development provided a stimulus to the industrial growth.

(b) Cuts in Excise & custom duty as well as tax holidays provided by various state governments.

(c) Better performance from Agriculture sector followed by improved Exports.

(d) Increased loan facilities from Banks & financial institutions.

(e) Extension of MODVAT to capital goods.

Subsequent Slowdowns: Due to Supply and Demand constraints the Industrial growth rate slumped starting from 1996 & continued till 2002; but for a temporary short-lived recovery in 1999-2000.

Demand Constraints: This arose in the form of low investment demand & low consumer demand.

Supply Constraints:

(a) The Asian crisis of 1997-98, the economic sanctions of 1998-99, the rebound of international oil prices during 1999-2001& the American fight back against terrorism had a cascading detrimental effect on industrial Growth.

(b) Slow progress in infrastructure development & certain regulatory frame work.

(c) Pricing policy in Agricultural inputs and outputs which were not received well further dampened the performance of Agriculture sector.

Revival followed by Strong Growth: Starting from 2002-03 followed by 2003-04 the revival process got initiated. The manufacturing sector grew by 9.1% &12.5% during

2006-07 & 2007-08. This growth in spite of various prevailed restrictive labour laws, red tapism & infrastructure shortcomings.

Slowdown during 2008-13: Followed by recession in US & most of Europe, Indian Economy also got affected during this period.

The major contributing Factors:

(a) Drastic reduction in consumption in US & rest of Europe had a huge detrimental effect on exports.

(b) Intense trading by low-cost players in the international market made export-oriented production unviable.

(c) International investments came to a standstill as global capital flows got dried up.

Short Revival during 2013-15: The Industrial growth in terms of Industrial production shows a positive growth of 5% against 3.4% the previous year.

4.19 Small Scale Industries

Small Scale industries, as the name suggests are the industries wherein the production process is undertaken at a small or say micro level. It is often set up by private individuals, usually with the help and support of their family members and hiring local workers who understand the work. It uses simple machinery, tools and equipment.

These are small enterprises which are known for the manufacturing of the products using light machinery, and less manpower, however, it depends on the production scale.

These industries play a crucial role in rural industrialization as well as in providing subsidiary employment to rural people.

Its aim is to create employment for local residents while using less capital. It helps in eradicating backwardness from rural areas, which results in decreasing regional imbalances, as it raises the income level and improves the standard of living.

Moreover, it mobilizes as well as uses the hidden and untapped resources of the country. In addition to this, it encourages indigenization.

Examples of Small Scale Industry

Bakery, Cashew processing, Bread production, Biscuit making, Incense sticks making, Coconut oil manufacturing, Candle making, Cotton buds making, Custard powder production, Envelope making, Eraser making, Fruit bar making, Ice cream making, Jam jelly making, Leather bag making, Microbrewery, Paper cup making, Palm oil processing, Pickles making, Slipper manufacturing, Soap manufacturing, Woodworking, etc.

Notes

Problems of Small Scale Industries

Problem of Finance: The most important problem faced by these industries is that of finance. The financial position of SSIs is a part of the wider problem of capital scarcity in the economy as a whole. The credit worthiness of small borrowers is generally weak and hence they face reluctant creditors who may be induced to lend only at higher rates of interest.

The problem is serious particularly in the countryside, where till recently, no serious effort had been made to provide institutional finance to meet the needs of small business. Of late there has been some improvement for providing financial assistance to SSIs. A rough estimate indicates that in the small scale sector about 15% manage their affairs with their own funds; about 35% of the units would be functioning on funds borrowed from private sources, such as, friends, relatives. The remaining 50 p.c. units depend on funds from institutional credit agencies.

Institutional funds have a number of limitations. Not only the funds are inadequate in relation to demand, the entrepreneurs are required to furnish detailed information about so many things which most entrepreneurs could not do. Moreover the multiplicity of investigating agencies in ascertaining the eligibility of the applicant causes not only unnecessary delay but also harassment to the entrepreneur.

Problem of Raw Material

The second major difficulty relates to the availability of raw materials to the SSIs. The raw material which is available is neither adequate in quantity nor of high quality. Scarcity of raw materials means a waste of productive capacity for the economy and a loss for the unit.

The problem has taken the shape of:

(i) An absolute scarcity,

(ii) Poor quality of materials and

(iii) High cost.

A scarcity of metal, chemicals and extractive raw materials is a general problem faced by the economy. Owing to scarcity, competition has increased and those small units competing with the large-scale producers suffer severely.

Small units can not engage special officers with the various Govt. agencies and they could not get adequate supplies and often have to make purchase in the open market at very high prices. This increases their cost of production and thus puts them in an adverse position vis-a-vis large units.

Notes

Problem of Power

Problem of power shortage has become so widespread that for the last few years it has been one of the serious problems of the economy. The impact of power shortage has become fatal on small producers, large industries somehow manage to escape.

There are two aspects of this problem; one, power supply is not always available to the small industry and wherever it is available it is rationed out, limited to a few hours in a day. Secondly, large industries can make alternative arrangements, like installing own power plants which the small units cannot because of heavy costs involved. A small unit has to manage as best as it can within the available means.

Problem of Marketing

The small business faces the problem of marketing his products. For want of adequate cooperative and other facilities for selling, small businesses are forced to sell their products in the local market. The inability to attract customers from distant markets compels them to restrict their scale of operation and forgo economies of scale.

Since the small businessman sells his produce in- the local market, he often gets unremunerative prices for his goods and even when he is free to sell in the district market, he does not get the right price due to his weak bargaining power. He has not enough finance to tide over the period between production and sale.

Ancillary industries have their own problems like:

(i) Delayed payments by parent units, (ii) Inadequacy of technological support and the supply of critical raw materials by parent units;(iii) Frequent changes in fiscal levies an (iv) Absence of a well-defined pricing system and regulatory agency.

Problem of Unused Capacity

A problem that has become serious in recent times is that of the underutilization of the capacity of this sector. The magnitude of unused capacity ranges from 45% to 70%. There are huge numbers of sick units in this sector. Estimates about sick units in this sector may vary, but there is a general agreement that the problem has assumed serious proportions.

Technological Problem

The methods and techniques of production of small producers are old and of inferior nature. Modern methods and techniques of production which have revolutionised industrial production have not as yet become an integral part of the structure of India's small scale industries.

Most of the small craftsmen are not in a position to buy modern equipment nor do they know much about new methods and technology. As a result their productivity remains low and the quality of goods is poor.

Other Problems

Small industries have to pay local and other taxes which result in raising the sale price adversely affecting the marketability of their goods. There is no uniform tax policy throughout the country in this regard. Small industries have to face competition from well organised large scale industries. The small producers cannot stand up against them in the market.

Another significant problem facing the small units is that when they grow from small scale size and just cross the value limit of plant and machinery of ₹ 60 lakhs, the spate of concessions and protection available to them is withdrawn.

They have to face open competition in every sphere of activity. Neither the banks nor the financial institutions look upon them with the same benevolent attitude which they had hitherto enjoyed.

The importance of small industries has been recognised by the Govt. since long. For many years, these industries were looked upon as suppliers of wage goods. As such these were accorded a crucial role in the heavy industry biased strategy of development adopted since the Second Plan.

Their placing in the national economy was further upgraded when it was realised that these industries could help lessening the problem of poverty and acute shortages of basic necessities. Thus, since the Fifth Plan three specific tasks have been laid down for these industries: removal of poverty; production of some of the basic and essential articles for the masses, and expansion of products fit for exports.

All along these industries have been assigned a key role for the removal of unemployment.

Measures to Avoid the Problems of Small Scale Industries

Negative Measures: The most important negative measure to promote SSIs is the policy of reservation of certain products for the small sector. The policy was initiated in 1968 when 47 products were reserved for the small scale sector and the large scale industries were not allowed to enter the field.

The number of such reserved items went up to 837 in August 1991. But it had been felt that the policy of reservations has not led to improvement of quality and technology. Therefore, in the new policy for small sector announced on August, 6, 1991, the Govt. has bid a good bye to the policy of reservation.

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Now big industry can start new units, hold 24% of share in them and manufacture any of the reserved items. Another negative measure is that the Govt. has decided to restrict the purchase of a number of items exclusively from the khadi and village industries and small scale units.

Positive Measures: Positive measures cover a wide range and are discussed under the following heads:

Technical Assistance: The elaborate institutional structure consisting of the State Directorate of Industries, the Small Industries Service Institutes and the Small Scale Industries Development Corporation provide technical assistance to the SSIs. The SISI also arrange for training programmes for entrepreneurs, managers and workers.

In 1978, the scheme of District Industries Centres (DICs) was introduced. The objective of this scheme was to provide a "focal point" for the development of small industries. The

DICs were given the responsibility of providing all the services and support required at preinvestment and post-investment stages to the small scale entrepreneurs.

The DICs provide a package of assistance and credit facilities, raw materials, training, marketing etc., including the necessary help to unemployed educated young entrepreneurs in general.

Physical Assistance

(a) **Industrial Estates:** An industrial estate programme has been in operation since 1955. An industrial estate is a planned clustering of industrial enterprises offering standard factory buildings erected in advance of demand. It offers all infrastructure facilities like sheds, water, power, communication, transportation etc.

Industrial estates were established in India to encourage the growth of small scale industries, to shift small business units from congested areas to estate premises in order to increase their productivity, to achieve decentralised development in towns and villages and to encourage growth of ancillary industries in the townships surrounding major industrial concerns.

Small industry development has been the main objective of the programme and policy of industrial estates in India. More than 500 industrial estates are working in India.

(b) **Supply of Raw Materials:** The scarce raw materials are distributed through an allocation system. In order to ensure the availability of the scarce raw materials

to small industries, the State Small Scale Industries Corporation have been entrusted with the responsibility of distribution these materials through the distribution centres located in different parts of each State.

Marketing Assistance: Marketing of their products is perhaps the most crucial problem facing the small scale enterprises.

The assistance provided by the Govt. in this area in these forms:

(a) Exclusive purchase of specific products of SSIs for the Govt.

(b) Price preference to small scale enterprises in public sector purchases and

(c) Assisting the sale of small enterprises products though State-owned cooperatives.

Fiscal Incentives: Both the Central and State Govts, have provided a number of fiscal incentives for the growth of the SSIs like:

(i) Tax holiday for new industrial undertakings,

(ii) Capital subsidy to industries in backward areas,

(iii) Excise duty exemption,

(iv) A price preference of 15% over large industries.

Apart from these assistance schemes of a general nature, the Govt. has also implemented a few special projects (including area development schemes) with a view to assisting dispersal of small scale enterprises into the backward rural areas, like the Rural Industries Projects which were started in specified rural areas with a view to undertaking development of village and small industry and Rural Artisan Programme in selected areas.

Financial Assistance: Every production activity needs finance. In case of small producers, there is a special need for making arrangements for the supply of credit as these producers by themselves can do little. Small industries find it difficult to raise loans due to the small size of their operations. Considering this problem, the official policy treats small enterprises as a priority sector for extending credit by financial institutions.

To the modern small scale enterprises, long term and medium term loans are provided by the State Finance Corporations; Commercial Banks also provide a part of the medium term loans and meet the working capital needs of the small scale industries. The village industries sector has been getting most of the financial resources from the Govt. whose budgetary support is channelized through the specialised institutions.

The RBI also provides finance for handlooms and other traditional industries through cooperative banking system. In recent years, artisans get a part of the loans of the nationalized banks under the Differential Rates of Interest Scheme. A number of

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schemes have been introduced from time to time for providing finance to small scale and cottage industries under liberal terms. Thus the Govt. of India introduced a Credit Guarantee Scheme with the object of enlarging the supply of institutional credit to the small scale sector.

The Industrial Development Banks of India provides funds to the Commercial Banks and the State Finance Corporations through its scheme of refinancing. The State Govts, provide seed capital and margin money assistance to small scale entrepreneurs in order to enable them to secure loans from the commercial banks and the State Finance Corporation.

A significant development has been the setting up of Small Industries Development Fund by IDBI in 1992. It has also taken a number of other measures like bringing the State Small Industries Development Corporations within the purview of assistance of IDBI, increasing the extent of refinance against loans from banks to small sector.

A National Equity Fund has been set up to promote small industries. Further, a Small Industries Development Bank of India an apex all India financial institution with an equity of ₹ 250 crores has been set up.

This Bank will administer both the National Equity Fund and the Small Industries Development Fund. SIDBI will function as the principal financial institution for the promotion, financing and development of industry in the small scale sector and to coordinate the functions of institutions engaged in promoting the small units. SIDBI has started functioning from 1990, through its 25 offices located in different States of the country.

With a view to ensuring larger flow of financial and nonfinancial assistance to small scale sector, SIDBI's immediate attention is on:

(i) Initiating steps for technological upgradation and modernisation of existing units,

(ii) Expanding channels for marketing products of SSIs in domestic and overseas markets and

(iii) Promotion of employment oriented industries to create more employment opportunities.

4.20 Large Scale Industries

Large scale industry refers to undertakings which have a vast infrastructure, and employee base along with heavy power-driven machinery and huge capital investment. To manage and operate these industries effectively, complex management is required.

Notes

It embraces both manufacturing concerns and others that make use of both indigenous and imported technology to manufacture the products, so as to cater the domestic as well as international markets.

In these industries division of labour and specialization principles are followed, with the aim of improving productivity. Further, modern capital assets are used for manufacturing goods to reduce cost. These industries get the benefit of economies of scale due to the high volume of output.

Large scale industries are the backbone of the economy, as they facilitate in the production of those consumer goods and capital goods which are imported from abroad, which encourages self-reliance. Further, they provide employment to a large number of people belonging to different areas. In addition to this, exports are promoted which increases the country's revenue.

Large Scale Industry -Examples

Tea Industry, Textile Industry, Iron and Steel Industry, Jute Industry, Cement Industry, Paper Industry, Petrochemical Manufacturing, Oil refineries, Food Processing, Automobile, Silk Industry, Fertilizer Manufacturing, Sugar Industry, Paper Industry, Chemicals and Pharmaceuticals, Distilleries and Breweries, Gul making, Metal Processing, Aviation (b) Supply.

Conclusion:

Both Small Scale Industries and Large Scale Industries occupy a significant place in the development of the country, not just because they provide employment to a large number of people but also because they contribute to the country's GDP. Moreover, they help in raising the standard of living of the people.

4.21 Introduction To Public Sector

It is known to us that public sector means and includes all those activities and/or functions including the services which are performed, controlled or regulated or owned by the State Government, i.e., the public sector comprises of State enterprises.

In the past, its area was limited. But, at present, the Government under the control of planning and welfare State, took a number of schemes with the result that the field of public sector had to be widened.

In other words, India has much extended the sphere of public sector and consequently extend the sector according to the needs of the industrial policy of the country. As a result, State participation in the field of economic activities is ever increasing.

Reasons for Increasing State Participation

The reasons for increasing State participation are noted below:

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(a) **Low Savings and Investment:** The savings and investment pattern of the country is very low. Private sector is totally proved to be failure i.e., neither they mobilised the resources nor applied properly the foreign investment opportunities for the development of the country. On the other hand, the position is better in the case of public sector since the State squeezes the additional savings and invests the same for the development of the country as a whole.

(b) **Establishment of Large Scale or Heavy Industries:** Since the resources of the private sector undertaking is limited, heavy or large scale industries cannot be operated for lack of funds/resources e.g., Iron and Steel industry that needs a larger amount of funds which is not possible to supply by the private sector. The same is quite possible under the public sector as because the state can accommodate the necessary fund

(c) **Concentration of Economic Power:** Concentration of economic power restores in the hands of a few under private sector. If the public sector industries develop the same can check the growing disparities and maintains a balance.

(d) **Profit Motive Criterion:** It is needless to say that private sector undertakings do not find any interest on the lessprofitable undertakings since its object is to earn maximum profit even if it may be considered as necessary for the social benefit and for the development of the country as a whole or which attains self-sustained economic growth. That is why, under the circumstances, public sector undertakings should come forward in order to develop the neglected sectors since it has a service motive.

(e) **Uneven Distribution of Resources:** In order to make a balanced development of trade and commerce, the Government should not leave the entire field of trade and commerce under private sector which practically invites uneven distribution of resources within the country which also affect the promotion of export trade with foreign countries. We know that the primary objective of the public sector undertaking is to do the greatest good to the greatest number and to supply social services for the benefit of the largest section of the people. At the same time, it becomes necessary to strengthen the position of the state as a whole.

The same is accepted by the new industrial policy of the Government of India which states that, "the nation has now set itself to establish a social order where justice and equality of opportunity shall be secured to all the people" etc.

Objectives of Public Sector

The general objectives of public sector are:

(a) To provide required investment and promotion of industrial activity by way of indirect public investment either by supplying financial assistance to private sector or to supply infrastructural and basic activities;

(b) To supply socio-economic developmental opportunities which should not be transferred to private sector undertakings;

(c) To nationalize those companies which are foreign dominated,

(d) To supply activities relating to import-substituting and export-promoting which are essential for the development of the country;

(e) To develop savings by mobilizing resources with the help of proper public sector prices more quick than others;

(f) To introduce certain activities to take the benefit of foreign aid and co-operation in the public sector;

(g) To make a balanced regional development by establishing regional promotional undertakings in less developed regions, e.g., D V. C (Damodar Valley Corporation);

(h) To protect the interest of small farmers by transferring all private licences to the corporations of agricultural reforms;

(i) To control the concentration of economic power and wealth as well;

(j) To make a social control on long term capital by supplying the necessary financial assistance through public financial institutions which are quite justified;

(k) To supply necessary finance for various development programmes which are essential for the development of the country;

(l) To make opportunities for employment and to form a rational society which is absolutely desired;

(m) To re-distribute incomes either by raising wage levels and checking higher salary level or by supply outputs at a concessional rate to the poor etc.

(n) To generate surplus resources for future growth and development; and

(o) To use human resources and material resources in a better way.

Growth of Public Sector in India

The public sector undertaking is growing at a rapid rate after independence. At present in our country, there are 750 State public sector enterprises and 225 central public sector enterprises approximately employing nearly about 1,00,000 managers. During 7th Five

year plan, on an average 50,000 crore of rupees were invested at the beginning in public sector enterprises which brought a remarkable contribution in the field of economic development Needless to mention here that these public sector enterprises covered all economy sector.

Notes

However, as per Standing Conference of Public enterprise, public sector enterprises are divided into the following nine categories, viz.:

(i) Public sector enterprises must supply essential infrastructure for economic development which are known as primary public utilities which include the following: Airlines, Shipping, Railways, Power Generation, Telecommunication etc.;

(ii) Public sector enterprises also to have control of the "commanding heights of the economy" e.g. Defence, Banks, Coalmines, Oil, Steel etc.

(iii) They are to play an entrepreneurial role which is, in other words, called capital intensive industries: e.g., Iron ore, Petro-Chemicals, Fertilizer, Mining, Ship-Building. Heavy Engineering etc.

(iv) Public sector enterprises under Government monopoly which includes: Telecommunication equipment. Defence production. Railways, Rolling Stock etc.

(v) Public sector enterprises which are exclusively meant for High Technology industries, e.g.: Atomic energy.

(vi) Consumer oriented public sector undertakings, viz.:

Drug. Paper, Hotels etc.

(vii) Public Sector enterprise which is set up in order to take over the sick private units, e.g.:

Textile, Engineering etc.

(viii) Public sector enterprises which are set up as Trade Corporation, e.g.: FCI, CCI, STC etc.

(ix) Public sector enterprises which serves as a consultancy and engineering service etc. e.g. MECON.

It becomes crystal clear from the above nine categories of public sector enterprises that public sector enterprises vary from industry to industry relating to its investment pattern, the nature of operation, the number of workers; its market both in national and international, locational factors, availability of raw materials, power, transportation, financial facilities, national and international collaboration, the nature of product, i.e. whether wealth it is monopolistic or competitive one.

Financial Management of Public Sector

It is interesting to note that the principles, techniques and application of financial management which are discussed in this volume earlier are equally applicable to all sectors whether private or public. Only certain specific features will be highlighted in the present study which arises primarily from State/Government and control and ownership. Public sector enterprises do not possess a basic framework where efficient financial management may be introduced in most of the cases. The Report of the Comptroller and Auditor General of India (Union Government, Commercial) stated that a large number of public sector undertakings have no procedure for compilation and maintenance of accounts and as such, internal audit system is very poor.

Even some firms neither maintain any systematic cost record nor follow inventory control methods for the purpose of proper evaluation Credit collection system is faulty in many cases and large capital is blocked in receivables and inventories. As a result, working capital is not properly utilized.

Conclusion to Public Sector: From the foregoing discussion it becomes clear that the methods/techniques of financial management as well as control require careful attention for its development in public sector undertakings. The insufficient and improper uses invite the overall deficiency on the part of the management.

If the various financial developed techniques, viz, budgetary control, costing, internal audit etc. are not introduced, it will be impossible for such public sector undertakings to stay in this compel

Performance of Public Enterprises

The performance of public enterprises like the private sector enterprises are generally judged on the profitability criterion. Public enterprises are generally criticised on the ground that their performance has been very poor in terms of rate of return or profit made on capital investment

In the year 1991-92 when the process of privatization or disinvestment was started, profitability of Central Public Enterprises was relatively low. Profitability measured in terms of per cent of gross profits to capital employed was 11.6 in 1991-92 and 11.4 in 1992-93.

Profitability measured in terms of net profit after tax to capital employed was 2.3 per cent in both 1991-92 and 1992-93.

However, an important point worth noting is that beginning from 1994-95, profitability of Central Public Undertakings has greatly improved. Thus, ratio of gross

profit to capital employed, which was 11.6 per cent in 1991-92, rose to around 14 per cent in 1994-95 and to 16 per cent in 1995-96.

Notes

In more recent years, rate of gross profits to capital employed rose to 16.2 per cent in 2001-02, 17.7 per cent in 2002-03, 21 per cent in 2003-04 and 21.5 per cent in 2004-05. Corresponding ratio of net profit after-tax to capital employed rose to 6.7%, 7.8%, 11.7% and 13.0% in 2001-02, 2002-03, 2003-04 and 2004-05 respectively. However, a very significant fact about the profits of public enterprises is that a major part of them is contributed by the petroleum sector enterprises.

For example, in 2004-05 the net profit after tax of all central public sector enterprises amounted to ₹ 65,429 crores of which about 41 per cent was contributed by petroleum sector enterprises alone. It will be seen from Table that rate of gross profit to capital employed was 21.1% in 2007-08, 18% in 2008-09 and 17.6% in 2009-10.

It may be further noted that in order to improve the efficiency and profitability of public undertakings, they have been given autonomy by the Government in their working and decision-making through signing of Memoranda of Understanding (MOUs). In 2000-2001, 107 PSUs signed Memoranda of Understandings. It is expected that with the autonomous functioning the efficiency and profitability of these enterprises will further improve.

Other Efficiency Criteria of Evaluating Public Sector Enterprises

Public sector enterprises should not be judged on the basis of profitability alone. There are other criteria by which they can be judged. They are:

(1) Technical efficiency,

(2) Allocative efficiency, and

(3) Dynamic efficiency.

Technical efficiency implies ratio of output produced by an enterprise to inputs used, which is also called total factor productivity. Allocative efficiency refers to the correction of market failures by the production of certain essential products by public enterprises which private enterprises will not produce on the basis of free working of price mechanism.

In this case production by public enterprises leads to better allocation of resources. Dynamic efficiency relates to introduction of innovations and up-gradation of technology. On these criteria, public enterprises do not fare badly as compared to private enterprises. In addition to these, public enterprises have made significant contribution to increase in investment or gross domestic capital formation (GDCF) and for achieving broad-based

industrial growth. When there was a decline in public investment from mid-sixties to midseventies and during the late nineties, there was a slowdown in industrial growth.

The major highlights of the performance of CPSEs during 2009-10 that net profit after tax of central public sector enterprises stood at ₹ 84,119 crore as compared to ₹ 69,267 crore in 2008-09. Besides, CBSEs earned foreign exchange amounting to ₹ 77,745 crore during 2009-10.

Thus, the overall performance of Central Public Sector enterprises is not bad keeping into account that many public sector enterprises lay greater emphasis on achieving non-financial social objectives.

Suggestions for Improving the Performance of Public Sector Enterprises

The following measures can be suggested for improving the performance of public sector undertakings in India:

(1) Managing of these undertakings should be entrusted to the trained and skilful personnel.

(2) The price policy of the public sector undertakings should aim at improving the profitability of the public undertakings. These profits can later on be used for the establishment of new enterprises, expansion and modernisation of the existing units.

(3) All-out efforts should be made to make fuller utilisation of the capacity in different enterprises. Possibilities of export promotion should also be explored.

(4) Public sector units should be allowed to raise larger deposits from the public. In fact, they have been allowed to raise public deposits up to 35 per cent of their share capital.

(5) Establishment of public enterprises be based purely on economic and social welfare consideration rather than political pressures.

(6) Disinvestment of a part of Government holdings in the share capital of selected public sector enterprises in order to provide market discipline and to improve the performance of the public enterprises.

(7) Sick public sector units should be merged together to make them economically viable units. There should also be restructuring of loss-making enterprises.

(8) Before the installation of these enterprises, pre-investment surveys should be conducted thoroughly. Delays in the installation of units should be avoided.

(9) The Sick Industrial Companies Act (SICA) has been amended to bring PSUs under its purview.

Notes

4.22 Role of Small, Medium and Cottage Industries

A notable sector of the Indian economy, the small scale industry (SSI) emerged during the 1980s. At present, it accounts for nearly 35 per cent of the gross value of output in the manufacturing sector and over 40 per cent of the total exports from the country. It also provides employment opportunities to around 12 million people. The primary objective of the SSI policy of the Government of India is to impart more vitality and growth-impetus to the sector and enable it to contribute its might fully to the economy, particularly in terms of growth of output, employment and exports. The sector has been substantially delicensed. Further efforts are being made to deregulate and de-bureaucratize the sector with a view to remove all fetters on its growth potential, reposing greater faith in small and young entrepreneurs. The Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 in terms of which the definition of micro, small and medium enterprises is as under:

- Enterprises engaged in the manufacture or production, processing or preservation of goods as specified below:
  i. A micro enterprise is an enterprise where investment in plant and machinery does not exceed ₹ 25 lakh.
  ii. A small enterprise is an enterprise where the investment in plant and machinery is more than ₹ 25 lakh but does not exceed ₹ 5 crore.
  iii. A medium enterprise is an enterprise where the investment in plant and machinery is more than ₹ 5 crore but does not exceed ₹ 10 crore.

  In case of the above enterprises, investment in plant and machinery is the original cost excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification.
- Enterprises engaged in providing or rendering of services and whose investment in equipment (original cost excluding land and building and furniture, fittings and other items not directly related to the service rendered or as may be notified under the MSMED Act, 2006 are specified below:
  i. A micro enterprise is an enterprise where the investment in equipment does not exceed ₹ 10 lakh.
  ii. A small enterprise is an enterprise where the investment in equipment is more than ₹10 lakh but does not exceed 2 crore.
  iii. A medium enterprise is an enterprise where the investment in equipment is more than ₹ 2 crore but does not exceed ₹ 5 crore.

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Meaning and Characteristics of Industrial Policies for MSME

The Indian government has adopted many policies and programmes for the development of Micro, Small and Medium Enterprises (MSME) sector, which may be discussed under the following heads.

1. **Reservation Policy:** Reservation of products for exclusive manufacture in the small scale sector was introduced for the first time in 1967 with the reservation of forty-seven items. Reservation affords support to SSIs against competition from medium/large/multinational companies. Reservation/de-reservation is a continuous process. As of 20 July, 2010, twenty items were reserved for exclusive manufacture in the small scale sector.
2. **Licensing Policy:** The major impact of liberalization and globalization of economy, which started in India in July 1991, aimed at doing away with the system of Compulsory Licensing. As of now, four industries were industries are reserved for the Public Sector such as Arms and ammunition and allied items of defence equipment, Defence aircraft and warships, Atomic energy and the Railways; and six industries fall under the compulsory licensing. These comprise breweries and distilleries, tobacco industry, electronic aerospace and defence equipment of all types, industrial explosives such as detonating fuses, safety fuses, gunpowder, hazardous chemicals, pharmaceuticals and others. Small units that employ less fifty workers and less than hundred workers are not required to obtain any license under Compulsory Licensing Provisions.
3. **Trade Policy:** Exports from the small scale sector over a period of time have acquired great significance in India's foreign trade. The MSME sector today constitutes a very important segment of India's economy and it accounts for nearly 40 per cent of the gross value of output in the manufacturing sector and about 50 per cent of the total exports from the country. Direct exports from the MSME sector account for 35 per cent of the total exports.

   Export Promotion from the small scale sector has been accorded a high priority in the India's export promotion strategy. The small industries due to their inherent strengths of low capital investment, high employment generation, maximum utilization of capacity, flexibility in operation, etc. are highly conducive for rapid industrialization and generation of export surpluses.
4. **Export-Import Policy for Small Scale Sector:** The various export-import policy for small scale sector are mentioned below:
   i. **Recognition of export houses/trading houses:** The EXIM Policy in 1997-2002 policy has laid down certain criterion in order to recognize

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established exporters so that the marketing infrastructure can be further accentuated. The eligibility criteria for such recognition is based either on the basis of Free On Board (FOB) or Net Foreign Exchange value of exports of goods and services made directly by the exporters during the preceding three licensing years or the preceding licensing year. In an attempt to encourage exports from the small scale sector, the exports made by small scale sector manufacturer-exporters are given triple weightage for the purpose of recognition as EH/TH/STH/SSTH.

ii. **Special import licence (SIL):** Exporters recognized as Export Houses, Star Trading House, Trading Houses, etc. are eligible for grant of Special Import Licence (SIL) at certain percentage of their FOB value of exports/ NFE.

5. **Promotional schemes:** To meet the challenges of international competition and to promote exports of MSME products, following promotional schemes are also being implemented:

   (i) Technology development and modernization fund scheme Small Industries Development Bank of India (SIDBI) implemented a scheme of technology development and modernization of MSME units with effect from April 1995. Under this scheme assistance is available for meeting the expenditure on purchase of capital equipment, acquisition of technical know-how, upgradation of process technology and products with thrust on quality improvement, improvement of packaging and cost of TQM and acquisition of ISO-9000 series certification. The coverage of the scheme has been enlarged from export-oriented units to nonexporting units also in September 1997. Under this Scheme a sum of 152 crores has been sanctioned for 245 units by April, 1999.

   (ii) Quality awareness scheme: Small Industries Service Institutes often organize workshops on ISO-9000 on certification and awareness of quality.

6. **Subsidy for obtaining ISO-9000 quality Certification:** Under the scheme of promoting ISO-9000 certification, MSMEs are given financial support by way of reimbursing 75 per cent of their expenditure to obtain ISO- 9000 certification subject to a maximum of 75,000.

7. **National Small Industries Corporation:** The National Small Industries Corporation (NSIC) through its export development programme is playing a vital role to promote the MSME sector in exporting their products/projects in

international, markets by providing following assistance to the small enterprises.

Various ways by which NSICs could be marketed and promoted are as follows:

- Organizing international exhibitions and buyers-sellers meet
- Providing information related to sales opportunities available in international market
- Advertising and publicity in various countries through Indian High Commissions and the Internet
- Publication of exporters directory
- Participating in global tenders
- Providing assistance in deemed exports
- Organization of seminars and workshops to upgrade and update MSME with regard to international developments

8. **Foreign Direct Investment (FDI) Approval:**

- An industrial undertaking, i.e., a company with interests in industry can invest up to 24 per cent equity in an SSI unit.
- If the equity goes beyond 24 per cent, the industrial unit loses its SSI status.
- There is no restriction on the extent of equity that can be held by a Nonresident Indian (NRI) as an individual/partner in an SSI unit.
- Investors need to file an application with the Reserve Bank of India (RBI) in the prescribed format and approval is ordinarily granted within 15 days.
- For foreign investment outside the automatic route, clearance has to be obtained from Foreign Investment Promotion Board (FIPB).
- Applications for setting up a 100 per cent Export Oriented Unit are also required to be filed with the SIA.
- For setting up a unit in an Export Processing Zone (EPZ), application has to be filed with the Development Commissioner of the concerned EPZ.
- Under automatic procedures, foreign technology agreements are being permitted in respect of industries that are designated as high priority industries.
- The use of foreign brand names and/or trade mark of goods is also now being permitted freely.

9. **Credit Policy:** Of all the elements that go into a business, credit is perhaps the most crucial. The best of plans can come to a naught, if adequate finance is not available at the right time. MSMEs need credit support not only for

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running the enterprise and operational requirements but also for diversification, modernization/upgradation of facilities, capacity expansion and so on. With respect to MSMEs, the problem of credit becomes all the more critical whenever any episodic event occurs such as a large order, rejection of consignment, inordinate delay in payment and so on. In general, MSMEs operate on tight budgets, often financed through owner's own contribution, loans from friends and relatives and some bank credit. Government of India recognized the need for a focused credit policy for MSMEs in the early days of promotion of MSMEs. This in turn led to a credit policy with the following components:

10. **Priority sector lending:** Credit to the MSE sector is ensured as part of the priority sector lending by banks. Banks are required to compulsorily ensure that specified percentage (currently 40 per cent for domestic commercial banks and 32 per cent for foreign banks) of their overall lending is made to priority sectors as classified by Government. These sectors include agriculture, small enterprises, retail trade and the like institutional arrangement.

    Small Industries Development Bank of India (SIDBI) is the principal financial institution for promotion, financing and development of the MSME sector. Apart from extending financial assistance to the sector, it coordinates the functions of institutions engaged in similar activities. SIDBI's major operations are in the areas of: (i) refinance assistance (ii) direct lending and (iii) development and support services. The commercial banks are important channels of credit dispensation to the sector and play a pivotal role in financing the working capital requirements, besides providing term loans (in the form of composite loans). State Financial Corporations (SFCs) and twin-function State Industrial Development Corporations (SIDCs) at the State level are the main sources of long-term finance for the MSME sector.

11. **Labour Policy:** Comprehensive laws as propounded by the government govern the labour policies for small scale industries. The following laws and policies are applicable for small scale industries in India:

- Apprentices Act, 1961
- The Beedi and Cigar Workers (Conditions of Employment) Act, 1966
- Bonded Labour System (Abolition) Act, 1976
- Child Labour (Prohibition & Regulation) Act, 1986
- The Children (Pledging of Labour) Act, 1933
- The Contract Labour (Regulation & Abolition) Act, 1970

- The Employees Provident Funds and Misc. Provisions Act, 1952
- Employees State Insurance Act, 1948
- Employers Liability Act, 1938
- Employment Exchange (Compulsory Notification of Vacancies) Act, 1959
- Equal Remuneration Act, 1976
- The Factories Act, 1948
- The Industrial Disputes Act
- The Industrial Employment (Standing Orders) Act, 1946
- The Inter-state Migrant Workmen (Regulation of Employment and Conditions of Service) Act, 1979
- Labour Laws (Exemption from Furnishing Returns & Maintaining Registers by Certain Establishments) Act, 1988
- Maternity Benefit Act, 1961
- The Minimum Wages Act, 1948
- The Payment of Bonus Act, 1965
- The Payment of Gratuity Act, 1972
- The Payment of Wages Act, 1936
- The Sales Promotion Employees (Conditions of Service) Act, 1976
- The Shops and Establishments Act, 1953
- The Trade Union Act, 1926
- Workmen's Compensation Act, 1923
- The Weekly Holidays Act, 1942

4.23 Overall Indian Economic Scenario

- Since the start of the 21st century, annual average GDP growth has been 6% to 7%, and from 2014 to 2018, India was the world's fastest growing major economy, surpassing China. Historically, India was the largest economy in the world for most of the two millennia from the 1st until 19th century.
- India is the world's largest manufacturer of generic drugs, and its pharmaceutical sector fulfils over 50% of the global demand for vaccines.
- The Indian IT industry is a major exporter of IT services with $191 billion in revenue and employs over four million people.

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- India's chemical industry is extremely diversified and estimated at $178 billion.
- The tourism industry contributes about 9.2% of India's GDP and employs over 42 million.
- India ranks second globally in food and agricultural production, while agricultural exports were $35.09 billion.
- The construction and real estate sector ranks third among the 14 major sectors in terms of direct, indirect and induced effects in all sectors of the economy.
- The Indian textiles industry is estimated at $100 billion and contributes 13% of industrial output and 2.3% of India's GDP while employs over 45 million people directly.
- India's telecommunication industry is the world's second largest by number of mobile phone, smartphone, and internet users.
- It is the world's 25th-largest oil producer and the third-largest oil consumer.[88] The Indian automobile industry is the world's fifth-largest by production.
- It has $1.1 trillion worth of retail market which contributes over 10% of India's GDP and has one of world's fastest growing e-commerce markets.[91] India has the world's fourth-largest natural resources, with mining sector contributes 11% of the country's industrial GDP and 2.5% of total GDP.[92] It is also the world's second-largest coal producer, the second-largest cement producer, the second-largest steel producer, and the third largest electricity producer.

Increasing Manufacturing Competitiveness

The manufacturing sector has also not grown as rapidly as might have been expected. The average growth rate of this sector has accelerated compared to the Ninth Plan but is unlikely to exceed 8 per cent in the Tenth Plan. It should be targeted to grow around 12 per cent or so if we want to achieve a GDP growth rate of 9 per cent.

India's performance in IT enabled services and other high end services,is clearly a source of strength that we must build upon. However, India cannot afford to neglect manufacturing activities. We have a dynamic entrepreneurial class that has gained confidence in its ability to compete. We have skilled labour and excellent management capability. However, there are other constraints that limit our competitiveness, especially in labour intensive manufacturing. The most important constraint in achieving a faster growth of manufacturing is the fact that infrastructure, consisting of roads, railways, ports, airports, communication and electric power, is not up to the standards prevalent in

our competitor countries This must be substantially rectified with the next 5 to 10 years if our enterprises are to compete effectively. Indian industry expects a level playing field in terms of quality of infrastructure. This should have high priority in the Eleventh Plan.

Shortage of electric power and the unreliability of power supply are universally recognized as a drag on the pace of India's development. Our competitors benefit from round the clock supply of power at stable voltage and frequency, but this remains elusive in most parts India. The management of power systems, especially distribution's the responsibility of state governments and a decisive improvement in this area is a critical challenge.

4.24 Recent Developments

With an improvement in the economic scenario, there have been investments across various sectors of the economy. In 2020, the total deal value in India stood at ~US$.80 billion across 1,268 transactions. Of this, M&A activity contributed ~50% to the total transaction value. Private Equity–Venture Capital (PE-VC) companies expanded from US$ 36.3 billion (1,012 deals) in 2019 to US$ 39.2 billion (across 814 deals) in 2020. Some of the important recent developments in Indian economy are as follows:

- India's overall exports from April 2020 to November 2020 were estimated at US$ 304.25 billion, (a 14.03% decrease over the same period last year). Overall imports from April 2020 to November 2020 were estimated at US$ 290.66 billion, (a 29.96% decrease over the same period last year).
- According to IHS Markit, Purchasing Managers' Index (PMI) for manufacturing stood at 56.4 in December 2020, against 56.3 in November 2020, indicating a higher growth for manufacturers speeding up production and boosting efforts to rebuild their inventories.
- Gross tax revenue stood at ₹ 7.21 trillion (US$ 98.50 billion) in the first six months of FY21.
- FDI inflows in India stood at US$ 39.93 billion between April 2020 and September 2020, 10% higher than the first six months of 2019-20 (US$ 36.05 billion).
- India's Index of Industrial Production (IIP) for October 2020 stood at 128.5, against 123.2 for September 2020.
- Consumer Food Price Index (CFPI) – combined inflation was 9.43% in November 2020, against 11.07% in October 2020.
- Consumer Price Index (CPI) – combined inflation was 6.93% in November 2020, against 7.61% in October 2020.

4.25 Government Initiatives

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- The two Union Budget's which were presented by Minister for Finance & Corporate Affairs, Ms Nirmala Sitharaman in the Parliament in 2020 & in 2021 aimed at energising the Indian economy through a combination of short-term, medium-term, and long-term measures.
- In November 2020, the Government of India announced ₹ 2.65 lakh crore (US$ 36 billion) stimulus package to generate job opportunities and provide liquidity support to various sectors such as tourism, aviation, construction and housing.
- Also, India's cabinet approved the production-linked incentives (PLI) scheme to provide ₹ 2 trillion (US$ 27 billion) over five years to create jobs and boost production in the country.
- Numerous foreign companies are setting up their facilities in India on account of various Government initiatives like Make in India and Digital India.
- Mr Narendra Modi, Prime Minister of India, launched Make in India initiative with an aim to boost country's manufacturing sector and increase purchasing power of an average Indian consumer, which would further drive demand and spur development, thus benefiting investors.
- The Government of India, under its Make in India initiative, is trying to boost the contribution made by the manufacturing sector with an aim to take it to 25% of the GDP from the current 17%. Besides, the Government has also come up with Digital India initiative, which focuses on three core components: creation of digital infrastructure, delivering services digitally and to increase the digital literacy.

Some of the recent initiatives and developments undertaken by the Government are listed below:

- On January 6, 2021, the Government of India and New Development Bank (NDB) signed two loan agreements for US$ 646 million to upgrade the State Highway network and district road network in Andhra Pradesh.
- On January 5, 2021, the Citizen Assistance and Relief in Emergency Situations (PM CARES) Fund Trust of the Prime Minister allocated ₹ 201.58 crore (US$ 27.56 million) to establish 162 additional dedicated pressure swing adsorption (PSA) medical oxygen generation plants within the country's public health facilities.

- On January 5, 2021, a US$ 105 million project to develop the inland water transport system in Kolkata, West Bengal, was signed by the Government of India, Government of West Bengal and the World Bank.
- In December 2020, the Government of India and Asian Development Bank (ADB) signed a US$ 231 million loan to boost electricity generation capacity in Assam through the establishment of a hydroelectric power plant of 120 megawatts (MW) that will strengthen household electricity availability.
- In December 2020, the Government of India and Asian Development Bank (ADB) signed a US$ 100 million loan to modernise and upgrade the power distribution system to boost the quality and efficiency of electricity supply in Bengaluru, Karnataka.
- In December 2020, the Indian cabinet approved assistance of ₹ 3,500 crore (US$ 478.60 million) for sugarcane farmers (Ganna Kisan).
- The Prime Minister of India, Shri. Narendra Modi announced various economic packages worth ₹ 30 trillion (US$ 410 billion), which was ~15% of India's GDP.
- In December 2020, the Government of India and New Development Bank (NDB) signed a loan agreement to lend US$ 1 billion via the Mahatma Gandhi National Rural Employment Guarantee Scheme to support the 'Aatmanirbhar Bharat' initiative.
- India is expected to attract investment of around US$ 100 billion in developing the oil and gas infrastructure during 2019-23.
- The Government of India is going to increase public health spending to 2.5% of the GDP by 2025.
- For implementation of Agriculture Export Policy, Government approved an outlay ₹ 2.068 billion (US$ 29.59 million) for 2019, aimed at doubling farmers income by 2022.

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4.26 Road Ahead

- India's GDP is expected to reach US$ 5 trillion by FY25 and achieve upper-middle income status on the back of digitization, globalization, favourable demographics, and reforms.
- India is also focusing on renewable sources to generate energy. It is planning to achieve 40% of its energy from non-fossil sources by 2030, which is currently 30%, and have plans to increase its renewable energy capacity from to 175 gigawatts (GW) by 2022.

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- India is expected to be the third largest consumer economy as its consumption may triple to US$ 4 trillion by 2025, owing to shift in consumer behaviour and expenditure pattern, according to a Boston Consulting Group (BCG) report. It is estimated to surpass USA to become the second largest economy in terms of purchasing power parity (PPP) by 2040 as per a report by Price water house Coopers.

4.27 Emerging Trends

India has emerged as the fastest growing major economy in the world and is expected to be one of the top three economic powers in the world over the next 10-15 years, backed by its robust democracy and strong partnerships.

Market size

- India's GDP (at constant 2011-12 prices) was estimated at ₹ 33.14 trillion (US$ 452.74 billion) for the second quarter of FY2020-21, against ₹ 35.84 trillion (US$ 489.62 billion) in the second quarter of FY2019-20.
- India is the fourth-largest unicorn base in the world with over 21 unicorns collectively valued at US$ 73.2 billion, as per the Hurun Global Unicorn List. By 2025, India is expected to have ~100 unicorns by 2025 and will create ~1.1 million direct jobs according to the Nasscom-Zinnov report 'Indian Tech Start-up'.
- India needs to increase its rate of employment growth and create 90 million nonfarm jobs between 2023 and 2030's, for productivity and economic growth according to McKinsey Global Institute. Net employment rate needs to grow by 1.5% per year from 2023 to 2030 to achieve 8-8.5% GDP growth between 2023 and 2030.
- India's foreign exchange reserves stood at US$ 581.131 billion in the week up to December 18, 2020 according to data from RBI.
- In 2020, India's ten largest trading partners were USA, China, UAE, Saudi Arabia, Switzerland, Germany, Hong Kong, Indonesia, South Korea and Malaysia.
- In 2019–20, the foreign direct investment (FDI) in India was $74.4 billion with service sector, computer, and telecom industry remains leading sectors for FDI inflows.
- India has free trade agreements with several nations, including ASEAN, SAFTA, Mercosur, South Korea, Japan and few others which are in effect or under negotiating stage.

- The service sector makes up 50% of GDP and remains the fastest growing sector, while the industrial sector and the agricultural sector employs a majority of the labour force.
- The Bombay Stock Exchange and National Stock Exchange are one of the world's largest stock exchanges by market capitalization.
- India is the world's sixth-largest manufacturer, representing 3% of global manufacturing output and employs over 57 million people.
- Nearly 66% of India's population is rural, and contributes about 50% of India's GDP. It has the world's fifth-largest foreign-exchange reserves worth $585 billion.
- India has a high public debt with 89% of GDP, while its fiscal deficit stood at 9.5% of GDP. India's government-owned banks faced mounting bad debt, resulting in low credit growth, simultaneously the NBFC sector has been engulfed in a liquidity crisis.
- India faces moderate unemployment, rising income inequality, and drop in aggregate demand.
- In recent years, independent economists and financial institutions have accused the government of fudging various economic data, especially GDP growth.
- The long-term growth perspective of the Indian economy remains positive due to its young population and corresponding low dependency ratio, healthy savings and investment rates, and is increasing globalisation in India and integration into the global economy.
- The economy slowed in 2017, due to shocks of "demonetisation" in 2016 and introduction of Goods and Services Tax in 2017.
- Nearly 60% of India's GDP is driven by domestic private consumption and continues to remain the world's sixth-largest consumer market. Apart from private consumption, India's GDP is also fuelled by government spending, investment, and exports.
- In 2019, India was the world's ninth-largest importer and the twelfth-largest exporter.
- India has been a member of World Trade Organization since 1 January 1995.
- It ranks 63rd on Ease of doing business index and 68th on Global Competitiveness Report.

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- With 500 million workers, the Indian labour force is the world's second-largest as of 2019. India has one of the world's highest number of billionaires and extreme income inequality.
- Since India has a vast informal economy, barely 2% of Indians pay income taxes.
- During the 2008 global financial crisis the economy faced mild slowdown, India undertook stimulus measures (both fiscal and monetary) to boost growth and generate demand; in subsequent years economic growth revived.
- According to 2017 Price water house Coopers (PwC) report, India's GDP at purchasing power parity could overtake that of the United States by 2050.
- According to World Bank, to achieve sustainable economic development India must focus on public sector reform, infrastructure, agricultural and rural development, removal of land and labour regulations, financial inclusion, spur private investment and exports, education and public health.

4.28 Issues and Challenges

Given below seven major challenges faced by the Economy in India.

Providing Essential Public Services for the Poor

The most important challenge is in providing essential public services such as education, health to large parts of our population who are denied these services at present. The performance of education and health sector is disappointing. There are large gaps in respect of educational facilities, health care and in related services such as maternal and child care, clean drinking water and access to basic sanitation facilities for the mass of our population especially the poor who do not have even minimum access.

Regaining Agricultural Dynamism:

One of the major challenges of the Eleventh Plan must be to reverse the deceleration in agricultural growth from 3.2 per cent observed between 1980 and 1996-97 to a trend average of only 1.5 per cent subsequently. This deceleration is undoubtedly at the root of the problem of rural distress that has surfaced in many parts of the country. This deceleration is affecting all farm size classes. A second green revolution is urgently needed to raise the growth rate of agricultural GDP to around 4 per cent. The challenge posed is to at least double the rate of agricultural growth. This calls for action on both the demand side and supply side.

Developing Human Resources

Development of human resources is very much crucial for attaining economic development which poses as an important challenge before the Eleventh Plan. In order to ensure a continuous and growing supply of quality of manpower we need large investments in public sector institutions of higher learning, combined with fundamental reforms of the curriculum and also service conditions to attract high quality faculty. The scope for expanding capacity through private sector initiatives in higher learning must also be fully exploited, while also ensuring that quality standards are not diluted. Unless this is done on an urgent basis, we will fail to attain global standards. India has historically lagged behind in the area of technical/vocational training and even today enrolment rates in ITIs and others Vocational institutes, including nursing and computer training schools, is only about a third of that in higher education.

This is quite the opposite of other Asian Countries which have outperformed use in labour intensive manufactures. Our ITIs will have to be substantially expanded not only in terms of the persons they train but also in the number of different skills and trades they teach. The quality and range of their training should keep pace with the changing needs of the economy.

Protecting the Environment

Environmental concerns are growing globally as well as within the country. While there may appear to be a trade-off between environmental sustainability and economic growth in the short run, it has to be recognized, that in the longer run environmental sustainability and human well-being are not necessarily in conflict.

Neglect of environmental considerations, as for example in profligate use of water or deforestation can lead to adverse effects very quickly. The threat of climate change also poses real challenge to the wellbeing of future generations which we can ill afford to ignore. Our developmental strategy has to be sensitive to these growing concerns and should ensure that these threats and trade-offs are appropriately evaluated.

Improving Rehabilitation and Resettlement Practices

Another important challenges before the Government is to improve the rehabilitation and resettlement practices. Our practices regarding rehabilitation of those displaced from their land because of development projects are seriously deficient and are responsible for a grow The costs of displacement born by our tribal population have been unduly high and compensation has been tardy and inadequate, leading to serious unrest in many tribal regions and also in some other regions. Such unrest is also visible in respect of land acquisitions related to Special Economic Zones (SEZs).

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This discontent is likely to grow exponentially if the benefits from enforced land acquisition are seen accruing to private interests, or even to the state, at the cost of those displaced. In order to prevent even greater conflict and threat to peace and development, it is necessary to frame a transparent set of policy rules that address compensation and make the affected persons beneficiaries of the projects and to give these rules a legal format in terms of the rights of the displaced. In addition to those displaced by development projects, those displaced by social upheavals should also be properly resettled.

Improving Governance

Improving the governance is another serious challenge faced by the country at this moment. All our efforts to achieve rapid and inclusive development will come to naught if we cannot ensure good governance both in the manner public programmes are implemented and, equally important, in the way the government interests with the ordinary citizen.

Corruption is now seen to be endemic in all spheres and this problem needs to be addressed urgently. Better design of projects and implementation mechanisms and procedures can reduce the scope of corruption.

Much more needs to be done by both the Centre and States to reduce the discretionary power of the government, ensure greater transparency and accountability and create awareness among citizens. The right to Information Act empowers the people to demand improved governance and we must be ready to respond.

Quick and inexpensive dispensation of justice is an aspect of good governance which is of fundamental importance in a successful civil society. The legal system in India is respected for its independence and fairness but it suffers from notorious delays in dispensing justice. Delays result in denial of justice. Delays cost money and therefore it is difficult for the poor in India to afford justice. Fundamental reforms are needed to give justice two attributes: speed and afford ability.

Thus, the Approach Paper has rightly stated that "The economy has much important strength that are reflected in the acceleration of growth witnessed in the past few years. But our growth has not been sufficiently inclusive and failures in this area are significant."

4.29 Summary

Agricultural Finance is concerned with the finance requirements of farm sector thereby sustaining the growth of Agriculture sector as well as national economy. Agricultural sector which is the backbone of Indian Economy is strongly dependent on finance support from Government & other financial institutions.

Agricultural finance has two parts: Macro finance deals with overall finance requirements of Agricultural sector at the national level & Micro finance is concerned with fund requirements of individual farm requirements. Agricultural Price policy aims to protect the interests of farmers as well as consumers.

Agricultural price policy has contributed significantly to growth of Agriculture sector by ensuring minimum support price to farmers and at the same time consumers are not subjected to heavy price fluctuations.

NABARD established in 1982 takes care of credit facilities needed by Agriculture sector and at the same time taking care of development and regulatory activities

Agriculture in India is the means of livelihood of almost two-thirds of the workforce in the country. It is the most important sector in the Indian Economy. Agriculture contributes to our National Income, it acts as the source of livelihood, it acts as the source of food supply to the country, it aids in the industrial development, it provides employment opportunities and it supplies fodder to the cattle.

Industrialization is the process by which an economy of a country is transformed from a primarily agriculturally based one to one based on the manufacturing of goods replacing manual labour by mechanized mass production equipment.

Economy of India is a fast developing one moving out gradually from an Agriculture based Economy to that of highly industrialised one making sizable progress on all industrial sectors. India is a world leader in Pharma sector and has made rapid progress in IT, space research, Chemical industries, mining etc.

Indian Government has also taken lot of initiatives towards Economic Growth by way of rapid industrialization by restructuring tax & import duties and also providing attractive incentives to industrial Entrepreneurs.

4.30 Keywords

- **MSP :** Minimum Support Price
- **CACP:** Commission for Agricultural costs & Prices.
- **CRAFICARD:** Committee to Review Arrangements for Institutional Credit in Agricultural and Rural Development.
- **GDCF:** Gross Domestic Capital Formation
- **SIDBI :** Small Industries Development Fund
- **SEZ :** Special Economic Zones
- **ITI :** Industrial Training Institute

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4.31 Review Questions

1. State the difference between Agriculture Finance & Housing finance.
2. What is meant by Agricultural Price Policy?
3. What is the capital investment in Food corporation of India to procure &store Food Grains.
4. What do you understand by Minimum support price?
5. What is NABARD?
6. Indicate two hindering factors in achieving rapid industrialization.
7. What is Slow down & Revival in industrial terms.?
8. What is Recession?
9. Distinguish between Small scale &Large-scaleindustries.
10. What are the three yardsticks to be deployed in evaluating the performance of Public sector undertakings.
11. Distinguish between Private & Public sector. Which is advantageous.?
12. What is meant by Sick Industries Act?
13. What is GDP?
14. What is make in India initiative?
15. How are Environmental issues can affect the economic growth of a nation?
16. Who are the ten largest trading partners f India?
17. What is the relevance of Human Resources towards Economic Growth?

4.32 Further Readings

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UNIT–5

Financial Institution & EXIM

Notes

(Structure)

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5.2 Introduction
5.3 Examples of MBC in India
5.4 Characteristics of a Multinational Corporation
5.5 FERA
5.6 FERA to FEMA
5.7 Features of FEMA
5.8 Seven Major Challenges
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5.11 Types of FDI
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5.14 Government Initiatives to Promote FDI
5.15 FDI Facts and Statistics
5.16 Recent FDI Announcements
5.17 FII-Foreign Institutional Investor
5.18 National Agricultural Policy
5.19 GATT
5.20 WTO and India's Foreign Trade
5.21 Summary
5.22 Keywords
5.23 Review Questions
5.24 Further Readings

5.1 Learning Objectives

After studying the chapter, students will be able to:

- Explain EXIM policy & its Objectives;
- Trade-Related Aspects of Intellectual Property Rights (TRIPS);
- Key features of Company's Act 2013;
- Explain about Foreign Direct Investment;
- Types of Foreign Direct Investment;
- Understand the formation of National Agriculture Policy
- Explain the aims of National Agricultural Policy
- Get an insight into the formation of the General Agreement on Tariffs and Trade (GATT)
- Understand the trade negotiations under the GATT
- Explain WTO and foreign trade
- Analyse the principles of GATT/WTO
- Understand Intellectual Property Rights (IPRs)

Notes

5.2 Introduction

A multinational company is one which is incorporated in one country (called the home country); but whose operations extend beyond the home country and which carries on business in other countries (called the host countries) in addition to the home country. It must be emphasized that the headquarters of a multinational company are located in the home country.

Neil H. Jacoby defines a multinational company as follows: "A multinational corporation owns and manages business in two or more countries."

Export import policy or EXIM policy is a set of guidelines or instructions regarding imports and exports of India.

EXIM policy is an integral part of Trade policy.

It is regulated and by the Foreign Trade Development and Regulatory Act,1992would reflect the extent of regulations or liberalization of foreign trade and indicate the measures for export promotion..

The first EXIM policy was announced on 31.3.1992 and it was for a period of 5 years

(1992-1997) EXIM policy is drafted for a period of 5 years and is updated every year on 31st march for modifications, improvements and the new scheme if any, becomes effective on 1st April.

All types of changes or modifications related to the Exim Policy is normally. announced by the Union Minister of Commerce and Industry who coordinates with the Ministry of Finance, the Directorate General of Foreign Trade and its network of regional offices. A very important feature of the EXIM policy since 1992 is freedom. Licensing, quantitative restrictions and other regulatory and discretionary controls have been substantially eliminated.

Global trade and investment or broadly, globalization, is a common market condition for all countries of the world now. However, it is not free from challenges.

To be specific, there are seven major challenges to global trade and investment the world is facing now.

A FDI or foreign direct investment (FDI) is an investment made by a company in another company based in another country or foreign land wherein the ownership is in the form of controlling interest.

Foreign direct investment includes the following-

- Mergers and acquisitions,
- Reinvesting profits earned from overseas operations
- Building new facilities and intra company loans".

FDI usually involves participation in management, transfer of technology and expertise and joint-ventures

Foreign direct investment is when an individual or business owns 10% or more of a company in a foreign country.

On the contrary if an investor owns less than 10%, then it's not FDI.

A 10% ownership does not give the investor a controlling power in the foreign company. However, it will allow influence over the company's management, operations, and policies. For this reason, governments always track investments in their country's businesses.

Economic liberalisation started in India during economic crisis(1991) and since then

Foreign Direct Investments have steadily increased in India, which subsequently have generated more than one crore (10 million) jobs. On 17 April, 2020, India changed its foreign direct investment (FDI) policy to protect Indian companies from "opportunistic takeovers/acquisitions of Indian companies due to the current pandemic(COVID)", according to the Department for Promotion of Industry and Internal Trade. While the new FDI policy does not restrict markets, the policy ensures that all FDI will now be under scrutiny of the Ministry of Commerce and Industry.

Notes

The General Agreement on Tariffs and Trade (GATT) was launched in Geneva in 1948 to reshape the world economy shattered by the Second World War. It comprised a trade pact among the member countries (more than a hundred, latter) with the objective of forming a permanent organisation, which would enforce a set of rules for the conduct of world trade. GATT's birth is a historical accident because United States refused to submit the Havana Charter to Congress for ratification. There was a virtual head on multilateralism on the one hand, and those who placed the whole emphasis on full employment policies on a national basis on the other. Such position made the ITO finally collapse.

As far as the agriculture sector is concerned, until 1994, it was outside the GATT purview. The original GATT applied to trade in agriculture also, but it allowed various exceptions to the rules on non-tariff measures and subsidies, which led to reverse distortions in world agriculture trade. The Uruguay Round of GATT negotiations went well beyond the international trade. It included the fields of GATT and extended to areas which were essentially part of domestic policies of a nation. New issues such as Intellectual Property Rights (IPRs), agriculture, investment, services, etc were brought on the agenda of multilateral negotiations. The eighth round of GATT's failure resulted in World Trade Organisation (WTO) that was a culmination of international efforts to establish truly international trade organisation. WTO works under certain guiding principles which govern all negotiating aspects namely agriculture, textiles and clothing, banking, telecommunications, government purchases, industrial standards and product safety, food sanitation regulations, intellectual property, etc. WTO's dispute settlement procedure is very significant for resolving trade quarrels. Whenever there is a violation by any government on WTO agreement or a commitment made to WTO, dispute settlement procedure comes to the rescue.

This unit gives an in-depth view of National Agriculture Policy, GATT and the beginning of an era of multilateralism through the formation of the WTO.

5.3 Examples of MBC in India

Foreign Multi national	Indian affiliate/subsidiary
Coca cola corporation	Coca cola India
Unilever	Hindustan unilever
Bata corporation	Bata India
Pepsi corporation	Pepsi India
Sony corporation	Sony India
ABB	ABB India
Cadbury	Cadbury India

Notes

1. TATA Group of companies
2. Hero Motocorp.
3. Aditya Birla Group of companies.
4. Karbonn Mobiles and Technologies
5. Parle Agro Private Limited
6. HCL Computers & Technologies
7. Dabur
8. Dr. Reddy's Laboratories & Researches
9. Bharti Airtel & Communication
10. BAJAJ
11. Mahindra Group of companies
12. Hindustan Motors
13. Maruti Suzuki
14. Emami
15. Bharti Enterprises
16. Wipro
17. Ranbaxy Laboratories Limited
18. TVS
19. Sundaram fasteners
20. Asian paints
21. Arvind mills

5.4 Characteristics of a Multinational Corporation

Following are the common characteristics of Multinational Corporations:

Very High Assets and Turnover

To become a multinational corporation, the business must be large and must own a huge amount of assets, both physical and financial. The company's targets are high, and they are able to generate substantial profits.

Network of branches

Multinational companies maintain production and marketing operations in different countries. In each country, the business may oversee multiple offices that function through several branches and subsidiaries.

Notes

Control

In relation to the previous point, the management of offices in other countries is controlled by one head office located in the home country. Therefore, the source of command is found in the home country.

Continued Growth

Multinational corporations keep growing. Even as they operate in other countries, they strive to grow their economic size by constantly upgrading and by conducting mergers and acquisitions.

Sophisticated Technology

When a company goes global, they need to make sure that their investment will grow substantially. In order to achieve substantial growth, they need to make use of capital intensive technology, especially in their production and marketing activities.

Right Skills

Multinational companies aim to employ only the best managers, those who are capable of handling large amounts of funds, using advanced technology, managing workers, and running a huge business entity. Forceful marketing and advertising.

One of the most effective survival strategies of multinational corporations is spending a great deal of money on marketing and advertising. This is how they are able to sell every product or brand they make.

Good Quality Products

Because they use capital-intensive technology, they are able to produce top-of-the-line products.

Objectives

1. To facilitate sustained growth in exports to attain a share of at least 1 % of global merchandise trade.
2. To stimulate sustained economic growth by providing access to essential raw materials, intermediates, components, consumables and capital goods required for augmenting production and providing services.
3. To enhance the technological strength and efficiency of Indian agriculture, industry and services, thereby improving their competitive strength while generating new employment opportunities, and to encourage the attainment of internationally accepted standards of quality.

4. To provide consumers with good quality goods and services at internationally competitive prices while at the same time creating a level playing field for the domestic produce.

Notes

5.5 FERA

Foreign Exchange Regulation Act (FERA), 1973

Foreign Exchange Regulation Act (FERA) was promulgated in 1973 and it came into force on January 1, 1974.

It imposed strict regulations on certain kinds of payments, the dealings in foreign exchange (forex) and securities and the transactions which had an indirect impact on the foreign exchange and the import and export of currency.

The rule of FERA was that every foreign company has to convert itself into Indian

Companies operating in India with at least 60 percent holding of local equity participation.

Section 29 of this Act referred directly to the operations of MNCs in India.

According to the Section, all non-banking foreign branches and subsidiaries with foreign equity exceeding 40 per cent had to obtain permission to establish new undertakings, to purchase shares in existing companies, or to acquire wholly or partly any other company.

The purpose of this Act was to increase the economic development of the country when the Forex reserves were lowest.

1. FERA regulates and controls the balance of payments.
2. FERA controls foreign exchange and securities.
3. FERA regularises the transactions directly or indirectly affecting foreign exchange.

5.6 FERA to FEMA

FERA act,1973 had many drawbacks and was eventually replaced by FEMA act in 1999. In 1991, the Government brought the LPG Policy. LPG stands for liberalization, Privatisation, and Globalisation. When foreign exchange flow increased in India, the old Act restricted the flow of foreign exchange and foreign investment because the aim was to regulate the foreign currency but with a lot of restrictions as per the Act.

- So, the idea shifted from conservation of foreign exchange to management of foreign exchange.

- With the increasing influx of foreign investments comings, the idea shifted to facilitating trade and payments as well as developing foreign exchange markets in India.

Notes

5.7 Features of FEMA

1. Contains provision for current account convertibility and liberalization of capital account transactions
2. It has specified areas where the prior approval for RBI/ Government on acquisition and holding of foreign exchange.
3. Classification of foreign exchange transactions into current and capital transactions
4. FEMA does not apply to Indian Citizens resident outside India.
5. It gives full power to the Resident in India who was Resident outside India to hold/control/ foreign investment and immovable property.
6. It is a civil law, and any contravention with the law allows arrest in exceptional cases.

Basis for Comparison	FERA	FEMA
Meaning	An act promulgated, to regulate payments and foreign exchange in India, is FERA.	FEMA an act initiated to facilitate external trade and payments and to promote orderly management of the forex market in the country.
Number of sections	81	49
When was it introduced	Foreign exchange reserves were low.	Foreign exchange position was satisfactory.
Approach towards forex transactions	Rigid	Flexible
Violation	Criminal offense	Criminal offense

1. FEMA gives power to the central government for imposing restriction on activities like making payments to a person situated outside of the country or receiving money through them. Apart from this, foreign exchange as well as foreign security deals is also restricted by FEMA.
2. Transactions revolving around foreign security or foreign exchange as well as payments made from any foreign country to India cannot be made without specific or general permission of FEMA. All transactions must be carried out via an individual who has received authorization for the same.

3. The central government can restrict an authorized individual to carry out foreign exchange deals within the current account, on the basis of general interest of the public.

Notes

5.8 Seven Major Challenges

Economic Warfare

Globalization has a tough challenge against polarization and conflicting issues. The world is experiencing increased conflicts, major economic powers are seizing influence, financial sanctions are being used as a weapon, and the Internet is breaking into pieces. Therefore, the international flow of money, information, products and services may slow down.

Geo-politicization

Globalization is a kind of Americanization. The United States is still a dominating economy and the hallmark of the international financial system. Moreover, information age is promoting the democratization of information. It is paving the way for demanding more information and the autocrats now need to care more about public opinion. The developments of developing countries are making them more or less like America State Capitalism

The United States was a strong nation in the last quarter of the century. But now, state capitalism in a modern form is gripping many nations. This is creating new segments in the markets and destroying the uniformity expected from globalization. Now, there is nothing predominantly American or about globalization itself.

Lack of Leadership

Globalization will continue rapidly, but the U.S led world order is getting diminished. An inconsistent, warridden United States lacks the will and ability to provide global leadership. Moreover, no other country is interested in taking its place. The West is having its own problems, and allies are only interested in hedging their bets. Therefore, there is no clear and definite way for globalization to progress and it is getting distorted.

Power Distribution

China, Russia, Turkey, India, and some other emerging nations are getting powerful enough to dismantle the US led theory of globalization. But they lack synchronization and influence. Their values and interests are not compatible. So, a regionalized world is emerging. Americanization and globalization are neither believed to be one and the same now nor is it preached by these power-seeking nations.

Notes

Weaker Underdogs

The regional economic powerhouses are getting more room to operate in today's world. Russia is intruding in its backyard, Germany is experiencing firm control over Euro zone,and China is rapidly rising in the Asia-Pacific. These major countries are trying to consolidate power without caring for the smaller countries near them. It is a kind of 'hollowing of the peripherals' that is accelerating.

Price Fluctuations of Natural Resources

The oil monopoly is deteriorating and many clashes and terrorist incidents are tearing the world apart. In such turmoil, the very essence of globalization is somehow getting blurred. These time-sensitive challenges are being faced by all international and huge global companies. While the problems don't seem to end soon, the global companies now have the choice to exercise their power in a global scale. They may or may not adapt to the new trend, but their superiority and powers have definitely got a boost due to the predominantly geopolitical crises.

5.9 TRIMS

Under the Agreement on Trade-Related Investment Measures of the World Trade Organization (WTO), commonly known as the TRIMs Agreement, WTO members have agreed not to apply certain investment measures related to trade in goods that restrict or distort trade. The TRIMs Agreement prohibits certain measures that violate the national treatment and quantitative restrictions requirements of the General Agreement on Tariffs and Trade (GATT).

Trade-Related Investment Measures is the name of one of the four principal legal agreements of the World Trade Organization (WTO), trade treaty. TRIMs are rules that restrict preference of domestic firms and thereby enable international firms to operate more easily within foreign markets. The TRIMs Agreement prohibits certain measures that violate the national treatment and quantitative restrictions requirements of the General Agreement on Tariffs and Trade (GATT).

TRIMs may include requirements to:

I. Achieve a certain level of local content;

II. Produce locally;

III. Export a given level/percentage of goods;

IV. Balance the amount/percentage of imports with the amount/percentage of exports;

V. Transfer of technology or proprietary business information to local persons;

These requirements may be mandatory conditions for investment, or can be attached to fiscal or other incentives. The TRIMs Agreement does not cover services. All WTO member countries (offsite link) are parties to this Agreement. This Agreement went into effect on January 1, 1995. It has no expiration date.

The Agreement requires all WTO Members to notify the TRIMs that are inconsistent with the provisions of the Agreement, and to eliminate them after the expiry of the transition period provided in the Agreement. Transition periods of two years in the case of developed countries, five years in the case of developing countries and seven years in the case of LDCs.

India's Notified TRIMs

As per the provisions of Article. 5.1 of the TRIMs Agreement India had notified three trade related investment measures as inconsistent with the provisions of the Agreement:

1. Local content (mixing) requirements in the production of News Print,
2. Local content requirement in the production of Rifampicin (a medicine) and Penicillin–G,
3. Dividend balancing requirement in the case of investment in 22 categories of consumer goods.

   Such notified TRIMs were due to be eliminated by 31st December, 1999. None of these measures is in force at present. Therefore, India does not have any outstanding obligations under the TRIMs agreement as far as notified TRIMs are concerned.

Present Status

The transition period allowed to developing countries ended on 31st December, 1999. However, Art. 5.3 provides for extension of such transition periods in the case of individual members, based on specific requests. In such cases individual Members have to approach the Council for Trade in Goods with justification based on their specific trade, financial and development needs. Accordingly 9 developing countries (Malaysia, Pakistan, Philippines, Mexico, Chile, Colombia, Argentina, Romania and Thailand) have applied for extension of transition period in respect of certain TRIMs which had been notified by them. Examination of their requests is underway in the Council for Trade in Goods of WTO. India had proposed during the Seattle Ministerial Conference that:

- Extension of transition period for developing countries should be on a multilateral basis and not on an individual basis;

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- Another opportunity should be provided to developing countries to notify un-notified

TRIMs and maintain them for an extended transition period;

- The Seattle Ministerial Conference was inconclusive and no decision could be taken on the proposals.

Conclusion: The TRIMs Agreement has been found by the developing countries to be standing in the way of sustained industrialization of developing countries, without exposing them to balance of payment shocks, by reducing substantially the policy space available to these countries. Developed countries, on the other hand, have been arguing for a further expansion in the list of prohibited TRIM. But India should be careful while giving its node to the expansion of TRIMS because it may make Indian manufacture more vulnerable against the cheap products of developed countries.

- WTO prohibit investment restricting measures that discriminates foreign investment
- The argument of WTO is that such investment restricting steps are violating trade itself (WTO is an institution formed to promote trade).
- Historically countries impose measures that restrict foreign investment (called as investment measures and WTO term this as Trade Related Investment Measures).
- Under TRIMs, the WTO names the list of investment measures that discriminates foreign investment and hence violates the basic WTO principle of National Treatment.
- These measures include – local content requirement, domestic employment, technology transfer requirement etc

What is TRIM?

The Agreement on TRIMs of the WTO is based on the belief that there is strong connection between trade and investment. Restrictive measures on investment are trade distorting. Several restrictive measures on investment are prohibiting trade and hence are not allowable. According to the TRIMs provision, countries should not adopt the investment measures which restrict and distort trade. Investment measures are those steps used traditionally against foreign investment by host countries. Here, the TRIMs instruct that WTO members may not apply any measure that discriminates against foreign investment that violates basic WTO principles (like the MFN). WTO gives a list of prohibited investment measures TRIMs like local content requirement, export

obligation, technology transfer requirement etc. that violates trade. Few exemptions to developing countries are also provided under TRIMs. The Committee on TRIMs monitors the operation and implementation of the TRIMs Agreement and offers consultation for member countries.

The objective of TRIMs is to ensure fair treatment of investment in all member countries. As per the TRIMs Agreement, members are required to notify the WTO Council for Trade in Goods of their existing TRIMs that are inconsistent with the agreement.

TRIMs and Foreign Investment Policy changes in India

India has made several foreign investment liberalisation measures since the launch of the New Industrial Policy in 1991. Regulations for both FDI and FPI were simplified and now foreign investment is allowed in almost all sectors.

5.10 TRIPS

Trade-Related Aspects of Intellectual Property Rights (TRIPS) covers most forms of intellectual property including copyright, patents, geographical indications, trademarks, industrial designs, trade secrets, and exclusionary rights over new plant varieties. TRIPS came into force on 1 January 1995.

Intellectual Property Rights are the rights given to persons/agencies for their creativity/innovations. These rights usually give the creator, an exclusive right over the use of his/her creation for a certain period of time. The importance of intellectual property in India is well established at all levels- statutory, administrative and judicial. This Agreement, inter-alia, contains an Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) which came into force from 1st January 1995. It lays down minimum standards for protection and enforcement of intellectual property rights in member countries which are required to promote effective and adequate protection of intellectual property rights with a view to reducing distortions and impediments to international trade.

The obligations under the TRIPS Agreement relate to provision of minimum standard of protection within the member countries legal systems and practices.

The Agreement provides for norms and standards in respect of following areas of intellectual property:

- Patents
- Trade Marks
- Copyrights

- Geographical Indications
- Industrial Designs

The basic obligation in the area of patents is that, the invention in all branches of technology whether products or processes shall be patentable if they meet the three tests of being new involving an inventive step and being capable of industrial application. In addition to the general security exemption which applied to the entire TRIPS Agreement, specific exclusions are permissible from the scope of patentability of inventions, the prevention of whose commercial exploitation is necessary to protect public order or morality, human, animal, plant life or health or to avoid serious prejudice to the environment.

Notes

What are the Key Features of Companies Act, 2013?

The TRIPS Agreement provides for a minimum term of protection of 20 years counted from the date of filing.

India had already implemented its obligations under Articles 70.8 and 70.9 of the TRIPS Agreement.

Acts related to Patents

- The Patents Act, 1970
- The Patents (Amendment) Act, 1999
- The Patents (Amendment) Act, 2002
- The Patents (Amendment) Act, 2005
- Rules pertaining to Patents
- The Patents Rules 2003
- The Patents (Amendment) Rules 2005
- The Patents (Amendment) Rules 2006
- The Patents (Amendment) Rules 2021

Trademarks

Trade Marks have been defined as any sign or any combination of signs capable of distinguishing the goods or services of one undertaking from those of other undertakings. Such distinguishing marks constitute protectable subject matter under the provisions of the TRIPS Agreement. The Agreement provides that initial registration and each renewal of registration shall be for a term of not less than 7 years and the registration shall be renewable indefinitely. Compulsory licensing of Trade Marks is not permitted. Act related to Trade Marks.

- Trade Marks Acts

- Trade Marks Act, 1999
- New Elements in the Trade Marks Act, 1999

Copyrights

Notes

India's copyright law, laid down in the Indian Copyright Act, 1957 as amended by Copyright (Amendment) Act, 1999, fully reflects the Berne Convention on Copyrights, to which India is a party. Additionally, India is a party to the Geneva Convention for the Protection of Rights of Producers of Phonograms and to the Universal Copyright

Convention. India is also an active member of the World Intellectual Property Organisation (WIPO), Geneva and UNESCO.

The copyright law has been amended periodically to keep pace with changing requirements. The recent amendment to the copyright law, which came into force in May 1995, has ushered in comprehensive changes and brought the copyright law in line with the developments in satellite broadcasting, computer software and digital technology. The amended law has made provisions for the first time, to protect the performer's rights as envisaged in the Rome Convention Several measures have been adopted to strengthen and streamline the enforcement of copyrights. These include the setting up of a Copyright Enforcement Advisory Council, training programs for enforcement officers and setting up special policy cells to deal with cases relating to infringement of copyrights.

Acts related to Copyrights

- The Copyright (Amendment) Act, 2012
- Copyright, Act 1957
- Copyright Rules, 1958,
- Copyright Handbook
- International Copyright Order, 1999
- Copyright Piracy in India
- Amendments in the Act

Geographical Indications

The agreement contains a general obligation that parties shall provide the legal means for interested parties to prevent the use of any means in the designation or presentation of a good that indicates or suggests that the good in question originates in a geographical area other than the true place of origin in a manner which misleads the public as to the geographical origin of the good.

There is no obligation under the Agreement to protect geographical indications which are not protected in their country of origin or which have fallen into disuse in that

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country. A new law for the protection of geographical indications, viz. the Geographical Indications of Goods (Registration and the Protection) Act, 1999 has also been passed by the Parliament and notified on 30.12.1999 and the Rules made there under notified on 8-3-2002.

Industrial Designs

Industrial designs refer to creative activity which results in the ornamental or formal appearance of a product and design right refers to a novel or original design that is accorded to the proprietor of a validly registered design. Industrial designs are an element of intellectual property.

Under the TRIPS Agreement, minimum standards of protection of industrial designs have been provided for. As a developing country, India has already amended its national legislation to provide for these minimal standards.

The essential purpose of design law it to promote and protect the design element of industrial production. It is also intended to promote innovative activity in the field of industries. The existing legislation on industrial designs in India is contained in the New Designs Act, 2000 and this Act will serve its purpose well in the rapid changes in technology and international developments. India has also achieved a mature status in the field of industriai designs and in view of globalization of the economy, the present legislation is aligned with the changed technical and commercial scenario and made to conform to international trends in design administration.

Conclusion: It's a hot discussion that will India get benefitted from this new regime of World Trade Organisation, as we know that near about 80% of patents & copyrights of different goods and services are owned by the developed countries of the world?

5.11 Types of FDI

There are mainly two types of FDI: Horizontal and Vertical. Two other types of FDI have emerged namely Conglomerate and Platform FDI.

1. **Horizontal FDI:** Under this type of FDI, a business expands all its inland operation to another country. The business under take the same activities but in a foreign country.
2. **Vertical FDI:** In this case, a business expands into another country by moving to a different level of supply chain. Thus business undertakes different activities overseas but these activities are related to main business.
3. **Conglomerate FDI:** Under this type of FDI, a business undertakes unrelated business activities in a foreign country. this type is not common as it involves

the difficulty of penetrating a new country and an entirely new and different market.

4. **Platform FDI:** Here, a business expands into another country but the output from the business is then exported to a third country.

Notes

5.12 Importance of FDI

There are many ways in which FDI benefits the recipient nation:

Increased Employment and Economic Growth Creation of jobs is the most obvious advantage of FDI. this is one of the most important reasons why a nation, especially a developing one, looks to attract FDI. Increased FDI boosts the manufacturing as well as the services sector. This in turn generates jobs, and helps reduce unemployment among the educated youth - as well as skilled and unskilled labour - in the country. Increased employment translates to increased incomes, and equips the population with enhanced buying power. This boosts the economy of the country.

Human Resource Development

This is one of the equally important advantages of FDI. Human Capital refers to the knowledge and competence of the workforce. Skills gained and enhanced through training and experience boost the education and human capital quotient of the country. Once developed, human capital is mobile. It can train human resources in other companies, thereby creating a ripple effect.

Development of Backward Areas

This is one of the most crucial benefits of FDI for a developing country. FDI enables the transformation of backward areas in a country into industrial centres. This in turn provides a boost to the social economy of the area. The Hyundai unit at Sriperumbudur, Tamil Nadu in India exemplifies this process.

Provision of Finance & Technology

Recipient businesses get access to thelatest financing tools, technologies and operational practices from across the world. Over time, the introduction of newer, enhanced technologies and processes results in their diffusion into the local economy which results in enhanced efficiency and effectiveness of the industry. Recipient businesses also receive "best practices" management, accounting, or legal guidance from their investors. They can in turn incorporate the latest technology, financing tools and operational policies. By adopting these practices, they enhance their employees' lifestyles. That in turn raises

the standard of living of people in the recipient country. FDI rewards the best companies in any country. It reduces the influence of local governments over them.

Notes

Increase in Exports

Not all goods produced through FDI are meant for domestic consumption. Many of these products have global markets. The creation of 100% Export Oriented Units and Economic Zones have further assisted FDI investors in boosting their exports from other countries.

Exchange Rate Stability

The constant flow of FDI into a country translates into a continuous flow of foreign exchange. This helps the country's Central Bank maintain a comfortable reserve of foreign exchange. This in turn ensures stable exchange rates.

Stimulation of Economic Development

This is another very important advantage of FDI. FDI is a source of external capital and higher revenues for a country. When factories are constructed, at least some local labour, materials and equipment are utilised. Once the construction is complete, the factory will employ some local employees and further use local materials and services. The people who are employed by such factories thus have more money to spend. This creates more jobs.

These factories will also create additional tax revenue for the Government, that can be infused into creating and improving physical and financial infrastructure.

Improved Capital Flow

Inflow of capital is particularly beneficial for countries with limited domestic resources, as well as for nations with restricted opportunities to raise funds in global capital markets.

Creation of a Competitive Market

By facilitating the entry of foreign organisations into the domestic marketplace, FDI helps create a competitive environment, as well as break domestic monopolies. A healthy competitive environment pushes firms to continuously enhance their processes and product offerings, thereby fostering innovation. Consumers also gain access to a wider range of competitively priced products.

Diversifies Investor Portfolios

Individual investors have the potential to achieve greater portfolio efficiency (return per unit of risk), as FDI diversifies their holdings outside of a specific country, industry, or political system. Generally, a broader base of investments will dampen overall portfolio

volatility and provide for stronger long-term returns. In a nutshell it offsets the volatility created by 'hot money. That's when short-term lenders and currency traders create an asset bubble. They invest lots of money all at once, then sell their investments just as fast. That can create a boom-bust cycle that ruins economies and ends political regimes. Foreign direct investment takes longer to set up and has a more permanent footprint in a country.

Provides Technology to Developing Countries

Provides financing to developing countries: Recipient countries see their standard of living rise. As the recipient company benefits from the investment, it can pay higher taxes.

Unfortunately, some nations offset this benefit by offering tax incentives to attract FDI.

5.13 Shortcomings of FDI

- Not suitable for strategically important industries: Countries should not allow foreign ownership of companies in strategically important industries like in specific defence and space research. That could lower the comparative advantage as well as sovereignty of the nation, according to an IMF report.
- Investors have less moral attachment: Foreign investors might strip the business of its value without adding any. They could sell unprofitable portions of the company to local, less sophisticated investors.
- Unethical access to local markets: They can use the company's collateral to get lowcost, local loans. Instead of reinvesting it, they lend the funds back to the parent company.
- Environmental Aspects: Some of the Chemical & Pharma industries that are banned in European countries due to environmental impact aspects can find its way in a disguised way.

5.14 Government Initiatives to Promote FDI

The Indian government has initiated steps to promote FDI as they set an investor-friendly policy where most of the sectors are open for FDI under the automatic route (meaning no need to take prior approval for investment by the Government or the Reserve Bank of India). The FDI policy is reviewed on a continuous basis with the purpose that India remains an investor-friendly and attractive FDI destination. FDI covers various sectors such as Defence, Pharmaceuticals, Asset Reconstruction Companies, Broadcasting, Trading, Civil Aviation, Construction and Retail, etc.

In the Union Budget 2018, the cabinet approved 100% FDI under the automatic route for single-brand retail trading. Under this change, the non-resident entity is permitted to commence retail trading of 'single brand' product in India for a particular brand.

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Additionally, the Indian government has also permitted 100% FDI for construction sector under the automatic route. Foreign airlines are permitted to invest up to 49% under the approval route in Air India.

The main purpose of these relaxations in foreign investment by the government is to bring international best practices and employee the latest technologies which propel manufacturing sector and employment generation in India. To boost manufacturing sector with a focus on 'Make in India' initiative, the government has allowed manufacturers to sell their products through the medium of wholesale and retail, including e-commerce under the automatic route.

5.15 FDI Facts and Statistics

According to Indian Brand Equity Foundation (IBEF), the total FDI investments in India during April-December 2017 stood at US$ 35.94 billion as the government has been providing relaxation on FDI which is attracting a large number of foreign investments.

Moreover, the Telecommunications sector has attracted the highest FDI equity inflow during April-December 2017, i.e., US $ 6.14 billion, followed by computer software and hardware sector at US$ 5.16 billion & Services at US$ 4.62 billion. The total FDI equity inflows for December 2017 reached US $ 4.82 billion.

During the period of April-December 2017, India gained maximum FDI equity inflows from Mauritius, i.e. US$ 13.35 billion, followed by Singapore (US$ 9.21 billion), Netherlands (US$ 2.38 billion), USA (US$ 1.74 billion), and Japan (US$ 1.26 billion).

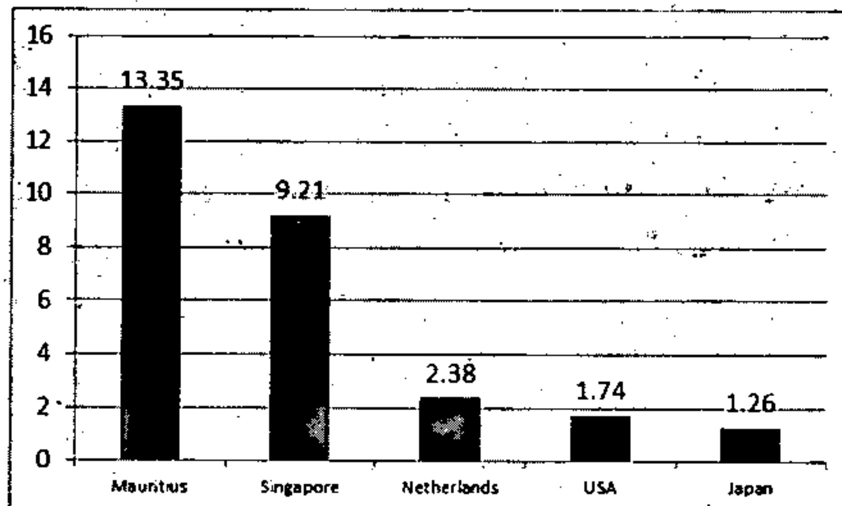


Fig.: FDI Equity Inflows Hy Country In US$ (April-December 2017)

Foreign companies invest in India to take benefits of relatively lower wages, special investment privileges like tax exemptions, etc. Hence, India is one of the top gainers of FDI.

Notes

5.16 Recent FDI Announcements

February 2018- IKEA declared its plan to invest approximately US$ 612 million in the Maharashtra state in order to establish multi-format stores and experience centres.

December 2017- DIPP (The Department of Industrial Policy & Promotion) approved FDI proposals of Supr Infotech Solutions and Damro Furniture in the retail sector. November 2017- In the state of North-East region of India, 39 MOUs (Memorandum of Understanding) was signed for the investment of US$ 612-765 million.

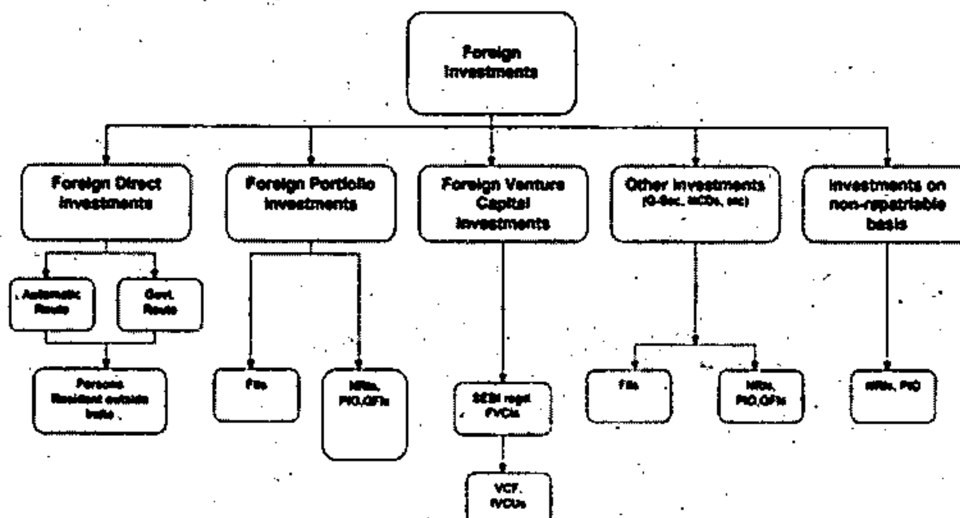
Thus, we can say that FDI plays a crucial role in the growth of Indian economy as it helps to bring new technologies, employment generation and improvement in business operations, etc. India registered its highest-ever annual Foreign Direct Investment (FDI) inflow of US$ 81.97 billion in 2020-21

5.17 FII-Foreign Institutional Investor

Foreign Institutional Investor (FII) means an institution established or incorporated outside India which proposes to make investment in securities in India. They are registered as FIIs in accordance with Section 2 (f) of the SEBI (FII) Regulations 1995.

A foreign institutional investor, or FII, is a hedge fund manager, pension fund manager, mutual fund, bank, insurance firm or representative agent of these entities who is registered to invest in a foreign country. The FII takes equity positions in foreign financial markets on behalf of the entity that is based in another country.

Foreign Investments in India—Schematic Representation:



Notes

This term is frequently used in reference to investing in emerging market economies. Direct access to the equities markets in some countries is limited and regulated. For example, foreign institutional investors seeking to invest in Indian companies must register with the Securities and Exchange Board of India, or SEBI.

In India, entities and funds who are eligible to get registered as FII comprise Pension Funds, Mutual Funds, Insurance Companies, Investment Trusts, Banks, University Funds, Endowments, Foundations, and Charitable Trusts / Charitable Societies. Apart from these, entities proposing to invest on behalf of broad based funds are also eligible to be registered as FIIs. These comprise Asset Management Companies, Institutional Portfolio Managers, Trustees, and Power of Attorney Holders.

Rising FII Activity

India has been witnessing a surge in FII activity since the opening of its capital markets. Owing to its high growth potential, India has become a favourite destination for FII activity.

FIIs, convinced of India's economic progress ad strong corporate earnings, are continuously investing in the country. At the macro level, India is still among the best macro stories in the world,

Growth of Foreign Institutional Investments

Emerging markets offer significant potential for growth in the near future. This potential is attracting large numbers of investors from the United States and other countries. Many investments are made in the form of foreign institutional investments. These investments are sometimes referred to as "hot money," since they often represent substantial sums that can be withdrawn from the markets at any time, potentially increasing volatility in foreign equity markets.

In the past few decades, developing economies began to appreciate the value of, and need for, foreign investments, and made moves to provide easier access to their financial markets. Foreign institutional investments have favoured the banking and construction sectors, as well as information technology companies. Major multinational companies involved in foreign institutional investment include Citigroup (C), HSBC (ADR -HSBC) and Merrill Lynch (MER).

Foreign institutional investors in India

Countries with the highest volume of foreign institutional investments are those that have developing economies. These types of economies provide investors with higher growth potential than in mature economies. This is why these investors are most commonly

found in India, all of which must register with the Securities and Exchange Board of India to participate in the market.

Regulations for investing in Indian Companies

Notes

All foreign institutional investors are allowed to invest in India's primary or secondary capital market only through the company portfolio investment scheme (PIS) these schemes are allowed the foreign institutional investors to purchase shares and debentures of Indians companies on the normal public exchanges in India.

For e.g.- United States mutual fund sees an opportunity of investment in Indian based company so it can purchase the equity on the Indian public exchange and take a long position in a high growth stock. This thing also helps the domestic private investors who may not be able to register with the securities and exchange board of India (SEBI) Be that as it may, there are numerous directions incorporated into the plan. There is a roof for all FIIs that expresses the maximum speculation sum must be 24% of the paid-up capital of the Indian organization getting the venture. The maximum speculation can be expanded above 24% through board endorsement and the death of an extraordinary goal. The roof is decreased to 20% of the paid-up capital for interests out in the open segment banks.

Difference between FDI and FII

Foreign Direct Investment

- Usually, investment is for an extended period
- Investment in physical assets
- Its goal is to enhance efficiency or enterprise capability or change administration mechanism.
- Its goal is to enhance monetary recourses.
- It expedites the technology transfer, approach to markets, and administration inputs.
- It flows into the primary or main market
- It is hard to enter and exit
- It is appropriate for the company's gain
- It directly affects the employment of labour and their wages.

Foreign Institutional Investment:

- Usually, investment is for a short period.
- Investment in financial assets.

Notes

- Its goal is to enhance monetary recourses.
- It helps in the monetary influx.
- It flows into the secondary market.
- It is easier to enter and exit in comparison to FDI.
- It is appropriate for monetary profit.
- It does not directly impact the employment of labour or wages.

A registration application is made in form A to apply for FII under the format given in SEBI (FII) Regulations, 1995.

Requirements to be fulfilled for grant of Registration for FII

- Applicants should be "fit and proper."
- The applicants ought to have documentation, specialized competency, economic reliability, proficiency, general repute of sprite, and honesty.
- The Applicants ought to be controlled by a proper foreign regulatory authority in the equivalent competence where registration is sought from SEBI.
- Permission is needed from the Reserved Bank of India under the provisions of the Foreign Exchange Management Act,1999.
- The Applicants should be lawfully allowable to finance in securities which are beyond their nation's territory.
- He needs to assign a native guardian after making a formal agreement.
- He shall appoint a bank to direct its businesses.

Significant Features of FIIs

- Venture in all securities traded on the principal and other minor sells is permissible.
- To enter market applicant companies, prior registration is compulsory with SEBI.
- For registration, allied and ancillary companies are referred to as two distinct FII.
- Registration is valid for five years, and then it can be renewed for another five years.
- FII shall have registration from the securities commission in the country they reside in.

Main Areas Touched by FII

- Exchange rate

- Exports and imports
- Inflation

Benefits of FII Investment

Notes

- Improve the flow of equity capital.
- Improves corporate authority.
- Manage uncertainty and control threats.
- Reduces the rate of equity capital.
- Communicating stability of India's BOP (balance of international payments)
- Helps in gaining Information.
- Enhance market productivity

Shortcomings of FII Investment

- Instability and money outflow
- Possibility of price rigging
- Possibility of market herding and positive feedback trading.
- BOP vulnerability
- There is a risk of backdoor control.
- Possibility of money laundering
- Possibility of inflation.

5.18 National Agricultural Policy

As already discussed in Unit 4, the first ever National Agriculture Policy was announced on 28th July, 2000. The formulation of Agriculture Policy had been under consideration of the Government for the last few years as a comprehensive National Agriculture Policy was absolutely essential to build on the inherent strength of the agriculture and allied sectors to address the constraints and to make optimal use of resources and opportunities emerging as a result of advancement in science and technology and emerging of a new economic regime.

National Agriculture Policy seeks to actualise vast untapped growth potential of Indian Agriculture, strengthen rural infrastructure to support faster agricultural development, promote value addition, accelerate the growth of agro-business create employment in rural areas, secure affair standard of living for the farmers and agricultural workers and their families, discourage migration to urban areas and face the challenges

arising out of economic liberalization and globalization over the next two decades, it aims to attain:

Notes

- A growth rate in excess of four per cent annum in the agriculture sector;
- Growth that is based on efficient use of resources and conserves our soil, water and bio-diversity;
- Growth with equality, i.e. growth which is widespread across regions and famers;
- Growth that is demand driven and caters to domestic markets and maximizes benefits from exports of agricultural products in the face of the challenges arising from economic liberalization and globalisation
- Growth that is sustainable technologically, environmentally and economically.

A nine pronged strategy has been devised to meet the challenges of enhancing production and strengthening rural economies while taking care to promote technically sound, economically viable, environmentally non-degrading and socially acceptable use of country's natural resources-land and water particular.

5.19 GATT

Although the challenges confronting developing countries primarily concern domestic policies and institutions, trade policies—narrowly defined—are still important in today's international economic landscape.

The General Agreement on Tariffs and Trade (GATT) was the outcome of the failure of the negotiating governments to create an International Trade Organization (ITO) following World War II. Negotiations on the charter of such an organization were concluded successfully in Havana in 1948, but the talks did not lead to the establishment of ITO because the US Congress was expected to refuse to ratify the agreement. Meanwhile, GATT was negotiated in 1947 by twenty-three countries—twelve industrial and eleven developing countries—before the ITO negotiations were concluded. As the ITO never came into being, GATT was the only concrete result of the negotiations.

GATT was a multilateral treaty laid down on agreed rules for conducting international trade. Since 1947, GATT has been the major focal point for the governments of industrial countries seeking to lower trade barriers. Although GATT was initially largely limited to a tariff agreement, over time and as average tariff levels fell, it increasingly came to concentrate on non-tariff trade policies and domestic policies that have an impact on trade. By the end of the Uruguay Round in 1944, 128 countries had joined GATT.

Its basic aim was to liberalize trade and for forty-seven years it had been concerned with negotiating the reduction of trade barriers and with international trade relations. Overseeing the application of its rules is an important and continuing part of its activities.

Notes

Trade Negotiations Under GATT

Eight major trade negotiations have taken place under the auspices of GATT. As a result of these negotiations, the tariff rates for thousands of items entering into the world commerce were reduced, or bound against increase. The Kennedy Round negotiations alone reduced the average level of the world industrial tariffs by about one-third. The Tokyo Round negotiations produced some comprehensive agreements on tariff and non-tariff measures.

Non-Tariff Measures

As the general level of tariffs declined in the post-World War II period, the distorting effects on world trade of non-tariff barriers became more pervasive. The Tokyo Round was different from earlier trade negotiations in as much as it sought to tackle the problem of these non-tariff barriers. The core of the Tokyo Round results consists of the binding agreements, or codes aimed at reducing and bringing these non-tariff measures under more effective international discipline.

Given its provisional nature and limited field of action, the success of GATT in promoting and securing the liberalization of world trade in over forty-seven years is incontestable. Continual reductions in industrial tariffs from an average of 40 per cent to less than 4 per cent alone helped achieve high growth rates in world trade—around 8 per cent a year on an average—during the 1950s and 1960s. The rush of new members during the Uruguay Round demonstrated that the multilateral trading system, as then represented by GATT, was recognized as an anchor for development and an instrument of economic and trade reform.

A whole corpus of jurisprudence on trade matters evolved under the aegis of GATT. The WTO is, in large measure, built upon the strong foundation provided by GATT.

5.20 WTO and India's Foreign Trade

WTO agreements covering the multilateral trading system are an example of a very typical economic system which can be called supranational. It is not representing any free trade area or the common market or the economic union. However, there is an increasing trend of adopting the qualities of each of these economic systems.

Multilateral trading system impacted the national policy autonomy in a very limited manner prior to the conduct of the Uruguay Round. There have been different agreements

on subsidies, investment, services and intellectual property which are very much within the border through the evolution of Uruguay Round. There is a deviation in the context of this agreement in common markets and economic unions to a certain extent.

Notes

Structure of WTO

WTO is responsible for overseeing the functioning of agreements within goods. Services and intellectual property rights related issues are delegated to three other bodies in terms of General Council, as per the highest authority of Ministerial conference. The other entities functioning under WTO are:

- Committee on Trade and Development
- Committee on Balance of Payment (BOP) restriction
- Committee to oversee the functioning of budget finance and administration
- Committee on Regional Trade Agreement 1996
- Bodies set under limited membership Plurilateral Trade Agreement
- Committee on market access
- Working party on accession
- Working groups on relationship between

i. Trade and investment

ii. Trade and competition policy

- Transparent government procurement agencies

Scope of the WTO

The WTO agreement (sometimes described as a 'mini charter') is strictly institutional and procedural in character and has no substantive rules or principles other than those which are included in the annexed agreements.

Basic Principles of General Agreement on Tariffs and Trade (GATT)/World Trade Organization (WTO)

- Market access: Reduction and binding of tariffs
- A country commits itself to ensure an agreed level of access to its market, on an MFN (Most Favored Nations) basis which means that a country is applying a common basic tariff (customs duty) to WTO member states:

General elimination of quantitative restrictions on imports and exports

- The use of QRs (Quantitative Restrictions) is prohibited
- Prohibition of QRs GATT Article XI

- Non-discrimination of QRs and TRQs GATT Article XIII
- Prohibition of QRs GATS Article XVI

Notes

WTO Agreements and their Business Impact

Following is a list of WTO Agreements and their broad coverage/impact on the conduct of business:

Table : List of WTO Agreements

S.No.	WTO Agreements	Business impact
1.	I. General Agreement on Tariff & Trade (GATT) II. Agreement on Agriculture	Reduction in import duty and other barriers to trade
2.	General Agreement on Trade in Services (GATS)	Liberalizing Services trade
3.	I. Agreement on Valuation of Goods II. Agreement on Pre-shipment Inspection (PSI) III. Agreement on Import Licensing Procedures IV. Agreement on Technical Barriers to Trade (TBT) V. Agreement on Rules of Origin	Establishing rules for liberal, secure and predictable access to foreign markets
4.	I. Rules applicable on Exports II. Agreement on Subsidies and Countervailing Measures (ASCM)	Subsidies and rights of exporters
5.	I. Agreement on Safeguard Measures II. Agreement on Anti-Dumping Measures (ADM)	Rules to check surge in imports
6.	Trade Related Intellectual Property Rights (TRIPS)	Protection of Intellectual property rights
7.	I. Trade Related Investment Measures (TRIMS) II. Agreement on Govt. Procurement (GP)	Other areas

Intellectual Property Rights

The Uruguay Round negotiated the agreement on trade related aspects of intellectual property rights.

This agreement recognizes the fact that intellectual property rights are private rights and establishes minimum standards of protection which need to be adopted by all the governments of the member countries of WTO. It needs to be noted that member countries can very easily provide the highest standards of intellectual property rights protection. The bases of this agreement are Paris, Berne, Rome and Washington conventions in their respective fields in terms of agreements and supplements.

Notes

This is not a fully independent convention but it is a rigorous set of articles which puts together the convention plus protection for IPRs. This agreement has one of the most comprehensive coverages and it also fulfils the requirements of convention plus protection for IPRs.

TRIPS agreement covers many issues with international instruments on IPRs. It deals with different types of IPRs with the exception of breeders' rights. Intellectual property reflects mainly ideas for novel and innovative brand products and book designs which indicate productiveness of human expressions.

If due protection is not given, there is a possibility of its loss to competitors leaving the original inventor without any advantage for himself and thus providing a disincentive for carrying out the innovations in future. Intellectual property, like any form of property, is protected through a law and can be a subject of trade, it can be owned and there can be a buy and sale as well. It is distinguished from other forms through some features including their intangibility and non-exhaustion by consumption.

WTO and Dispute Settlement

WTO's dispute settlement procedure is very significant for resolving trade quarrels. Whenever there is a violation by any government on WTO agreement or a commitment made to WTO— WTO's dispute settlement procedure comes to the rescue. In fact, these agreements have been made by the representatives of governments of various countries. Obviously, these representatives bear the brunt of settling disputes through the Dispute Settlement Body (DSB).

The Process: Stages in WTO Dispute Settlement Procedure

The dispute settlement system consists of various stages. Two major ways in which the dispute can be settled after the filing of the complaint are:

(i) The parties find a mutually agreed solution, particularly during the phase of bilateral consultations; and

(ii) Through adjudication

There are three main stages to the WTO dispute settlement process:

(i) Consultations between the parties

(ii) Adjudication by panels and, if applicable, by the appellate body;

(iii) The implementation of the ruling, which includes the possibility of counter measures in the event of failure by the losing party to implement the ruling.

Notes

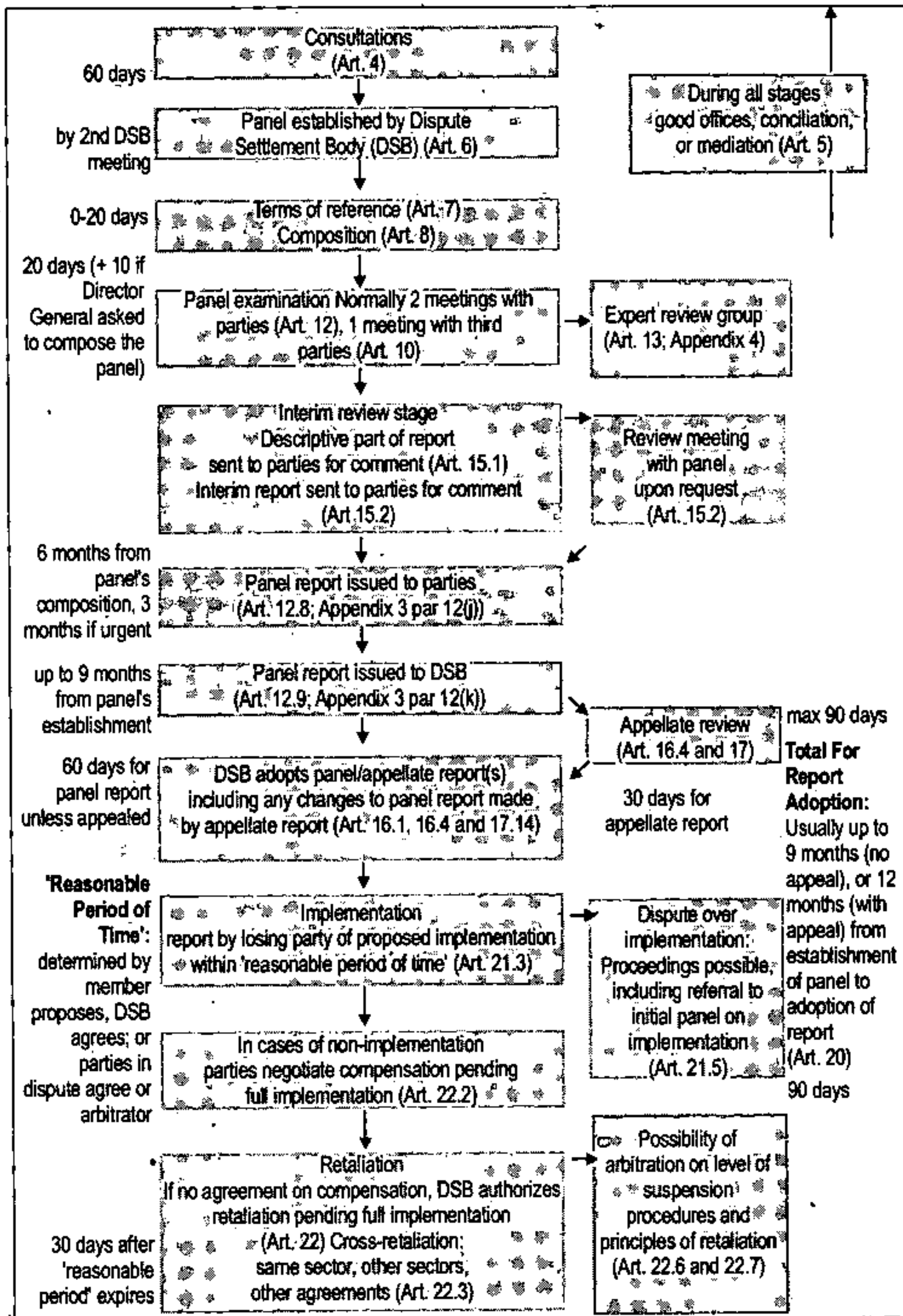


Fig. : Flow Chart of the Dispute Settlement Process

Anti-Dumping Provisions

If a company exports a product at a price lower than the price it normally charges on its own home market, it is said to be 'dumping' the product. The WTO antidumping provisions do not pass judgment but discipline the anti-dumping actions taken by governments.

Statistics of Anti-Dumping

There was a fall in the number of disputes in 2009 because of the global economic crises. There were 209 initiations which came down to 170 in the first half of 2010 and 68 in the first half of 2011.

India uses dispute settlement system in the area of anti-dumping to a great extent. There was exception for the year 2004 when EU followed by China and US topped the list. Going along with the pace of global development there was an increase in the anti-dumping initiation to 55 in 2008. Then there was a fall to 31 in 2009. Soon there was an increase to 41 in 2010. Brazil was number two in 2010 with 37 initiations.

Table : Investigations initiated by top ten users of Anti-Dumping Measures 1995-2011

Country	1995	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	1995-2011*
India	6	79	81	46	21	28	35	47	55	31	41	10	647
United States	14	77	35	37	26	12	8	28	16	20	3	9	452
European Union	33	28	20	7	30	24	35	9	19	15	15	8	428
Argentina	27	28	14	1	12	12	11	8	19	28	14	4	288
Brazil	5	17	8	4	8	6	12	13	23	9	37	11	227
Australia	5	24	16	8	9	7	11	2	6	9	7	2	219
South Africa	16	6	4	8	6	23	3	5	3	3	0	1	213
China	0	14	30	22	27	14	10	4	14	17	8	0	186
Canada	11	25	5	15	11	1	7	1	3	6	2	0	153
Turkey	0	15	18	11	25	12	8	6	23	6	2	1	147
All countries	157	372	315	234	220	201	204	165	213	209	170	68	3922

India has the highest anti-dumping initiation cases in the international context. Share of imports from the target countries before the imposition of duties i.e. 2009-10 for 12 items for which this duty was imposed by India was only 0.6 per cent in April-March 2010-11. In 2010-11 it came down to 0.4 per cent.

Table : Anti-Dumping Duty by India in 2010-11 (April-March)

No. of items	No. of cases	No. of countries involved	Value of imports of the items from target countries (US$ million)		Value of imports of the items from all countries (US$ million)	
			2009-10	2010-11	2009-10	2010-11
12	19	10	1767	1304	7226	6392
			(0.6)	(0.4)	(2.5)	(1.7)

Notes

5.21 Summary

EXIM policy (Export & Import policy) which is an integral part of Trade policy provides guidelines to regarding Imports & Exports of India. Foreign Exchange & Regulation Act 1973 (FERA)imposed strict regulations the dealings in foreign exchange (forex) and securities and the transactions which had an indirect impact on the foreign exchange and the import and export of currency. Foreign Exchange & Management Act (FEMA) Contains provision for current account convertibility and liberalization of capital account transactions and any contravention with the law allows arrest in exceptional cases.

TRIMs are rules that restrict preference of domestic firms and thereby enable international firms to operate more easily within foreign markets. India's Notified TRIMs Agreement had notified three trade related investment measures as inconsistent with the provisions of the Agreement:

Trade-Related Aspects of Intellectual Property Rights (TRIPS) covers intellectual property including copyright, patents, geographical indications, trademarks, industrial designs, trade secrets, and exclusionary rights over new plant varieties.

Foreign Direct Investment(FDI) is an investment in one country in the form of controlling ownership by an entity in another country. Foreign Investors taking advantage of prevailing favourable conditions like cheap labour, tax incentives, better infrastructure invest in profitable private businesses in India. The investments from Foreign direct investments can be either vertical or horizontal.

FDI brings along with it various benefits to the invested country like employment,

Technology &Finance, improved skill levels of working labour, higher export potential, valuable Foreign exchange etc.

Foreign Institutional Investments (FII) are investments brought in by institutions outside India in securities in India after duly registering in SEBI. All foreign institutional investors are allowed to invest in India's primary or secondary capital market only through the company portfolio investment scheme (PIS) to purchase shares and debentures of Indians companies on the normal public exchanges in India. FDIs are investments in physical Assets whereas FFI s are investments in financial Assets.

The first ever National Agriculture Policy was announced on 28th July, 2000. The formulation of Agriculture Policy had been under consideration of the Government for the last few years.

A nine-pronged strategy has been devised to meet the challenges of enhancing production and strengthening rural economies while taking care to promote technically

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sound, economically viable, environmentally non-degrading and socially acceptable use of country's natural resources-land and water particular.

GATT was a multilateral treaty laid down on agreed rules for conducting international trade. Since 1947, GATT has been the major focal point for the governments of industrial countries seeking to lower trade barriers. Although GATT was initially largely limited to a tariff agreement, over time and as average tariff levels fell, it increasingly came to concentrate on nontariff trade policies and domestic policies that have an impact on trade.

Given its provisional nature and limited field of action, the success of GATT in promoting and securing the liberalization of world trade in over fortyseven years is incontestable. Continual reductions in industrial tariffs from an average of 40 per cent to less than 4 per cent alone helped achieve high growth rates in world trade—around 8 per cent a year on an average— during the 1950s and 1960s.

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TRIPS agreement covers many issues with international instruments on IPRs. It deals with different types of IPRs with the exception of breeders' rights.

WTO's dispute settlement procedure is very significant for resolving trade quarrels. Whenever there is a violation by any government on WTO agreement or a commitment made to WTO— WTO's dispute settlement procedure comes to the rescue.

If a company exports a product at a price lower than the price it normally charges on its own home market, it is said to be 'dumping' the product. The WTO anti-dumping provisions do not pass judgment but discipline the antidumping actions taken by governments.

India has the highest anti-dumping initiation cases in the international context. Share of imports from the target countries before the imposition of duties i.e. 2009-10 for 12 items for which this duty was imposed by India was only 0.6 per cent in April-March 2010-11. In 2010-11 it came down to 0.4 per cent.

Notes

5.22 Keywords

- **EXIM:** Export import policy
- **TRIMS :**Trade-Related Investment Measures
- **GATT:** General Agreement on Tariffs and Trade
- **FDI :** Foreign Direct Investment
- **SEBI:** Securities and Exchange Board of India.
- **FII:** Foreign Institutional Investors.
- **BOP:** Balance of Payments
- **QRs (Quantitative Restrictions):** Specific limits on the quantity or value of goods that can be imported (or exported) during a specific time period.
- **TRIPS agreement:** The Agreement on Trade related Aspects of Intellectual Property Rights of the WTO is commonly known as the TRIPS Agreement.
- **An anti-dumping duty:** This is a protectionist tariff that a domestic government imposes on foreign imports that it believes are priced below fair market value.

5.23 Review Questions

1. What is EXIM policy?
2. What is FERA?
3. What is FEMA?
4. What is Special Economic Zone (SEZ)?
5. Discuss the recent trends in India's foreign trade.
6. What is Economic Warfare?
7. What is meant by state Capitalism?
8. What is the impact of Price Fluctuations on Natural Resources?
9. What is WTO &what its role?
10. When did the TRIMS agreement came in to effect?
11. Which type of FDI is advantageous; Horizontal or Vertical?
12. What is the impact on Employment through FDI?
13. The goods produced through FDI is meant for Exports or for domestic or for both?

Notes

14. What are the shortfalls of FDI?
15. What is the significant feature of FII's?
16. Discuss the role of National Agriculture policy in actualizing the untapped potential of agriculture.
17. Analyse the basic aim of the General Agreement on Tariffs and Trade (GATT).
18. Write a comprehensive note non-tariff measures on the world trade.
19. Enumerate the basic principles of GATT/WTO.
20. Analyse the provisions of anti-dumping measures.

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