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Indian Economic Development

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CENTRE FOR DISTANCE AND ONLINE EDUCATION

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INDIAN ECONOMIC DEVELOPMENT

(BAECCC201)

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CONTENT

Unit 1:	**Indian Economy since Independence**	1
Unit 2:	**Human Development**	16
Unit 3:	**Cooperative Federalism**	34
Unit 4:	**Demographic Constraint**	45
Unit 5:	**Poverty and Inequality in India**	58
Unit 6:	**Unemployment in India**	71
Unit 7:	**Agriculture Sector**	82
Unit 8:	**Agricultural Policy**	97
Unit 9:	**Industrial Development**	112
Unit 10:	**Service Sector**	128
Unit 11:	**Fiscal Policy**	140
Unit 12:	**Foreign Trade**	157
Unit 13:	**Monetary Policy**	171
Unit 14:	**Structural Reforms of the Indian Economy**	183

Unit 01: Indian Economy since Independence

CONTENTS

Objectives

Introduction

1.1 Estimation of National Income in India

1.2 Agriculture Sector in India after Independence

1.3 Industrial Sector in India after Independence

1.4 Import Substitution Policy of India

Summary

Keywords

Self Assessment

Answers for Self Assessment

Review Questions

Further Readings

Objectives

Discuss National income in India pre independence

Discuss trends and composition of Indian National Income after Independence

Describe the changes in agriculture after independence

Discuss the changes in industry after independence

Evaluate the import substitution policy of India

Introduction

Each sector of the economy employs natural, human, and material resources and contributes to the aggregate flow of goods and services during a given time period which may normally be specified as a year. The aggregate flow of goods and services represents the aggregate income earned by factors of production employed during the year and is termed as national income or national product. The rate of growth of national income when compared with the rate of growth of population indicates whether the economy is declining, stagnant or developing. It is only when the national income grows at a rate faster than the rate of growth of population that the per capita income depicts a rising trend; the community is able to improve its living standards and add to its stock of capital and the economy moves on the path of a rising level of activity and productivity.

1.1 Estimation of National Income in India

In India, the first attempt to estimate national income and per capita income was made in the year 1867-68 by Shri Dadabhai Naoroji. This was followed by several intermittent efforts by individuals, officials as well as non-officials. Immediately after independence, the Government set up the National Income Committee in August 1949 to prepare a report on national income and related estimates to suggest improvements in the collection of data, and to recommend guidelines for research in the field of national income. The First Report of the Committee was published in 1951, and the Final Report in 1954.

The task of preparing national income estimates has been assigned to the Central Statistical Organization (CSO). The CSO has been producing annual official estimates of national income of

accelerates and is widely shared among the people and regions of the country. Given the role and relevance of agriculture in India's economy, this unit intends to discuss in detail (a) the performance of agriculture sector in terms of trends in production and productivity focusing upon the period since independence; (b)Issues and concerns being faced by the sector; and (c) Strategic, policy and schematic initiatives taken by the government for transformation of agriculture and how far these measures have benefited in de-facto sense the farmers/cultivators.

Production and Productivity in Post-Independence Period

Trends in Production

The trends in production are shown in Table 1.1 and the conclusions drawn from it are:

- Consistent increase in food grains production with considerable annual fluctuations.
- The production of two major crops – Wheat and Rice – has consistently increased since 1950-51 and increase was significant, especially in case of wheat after the adoption of New Agricultural Strategy since mid-1960s and in rice it followed subsequently in early 1980s. These two crops benefitted the most from the development of 'miracle seeds'.
- Jowar and bajra exhibited erratic trends over the planning period. Introduction of HYV maize has pushed up its production and productivity. As a result, area under maize has risen significantly at the cost of other cereals like jowar, bajra, etc.

Table 1.1 Trends in Agricultural Production

Crop	Decadal Trends from 1950-51 to 2010-11 and Annual Trends thereafter up to 2018-19														
	1950-51	1960-61	1970-71	1980-81	1990-91	2000-01	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Rice	20.6	34.6	42.2	53.6	74.3	85.0	96.0	105.3	105.2	106.6	105.5	104.4	109.7	112.8	116.4
Wheat	6.4	11.0	23.8	36.3	55.1	69.7	86.9	93.5	93.5	95.8	86.5	92.3	98.5	99.9	102.6
Jowar	5.5	9.8	8.1	10.4	11.7	7.5	7.0	6.0	5.3	5.5	5.5	4.2	4.6	4.8	3.8
Bajra	2.6	3.3	8.0	5.3	6.9	6.8	10.4	10.3	8.7	9.3	9.2	8.1	9.7	9.2	8.6
Maize	1.7	4.1	7.5	7.0	9.0	12.0	21.7	21.8	22.3	24.3	24.2	22.6	25.9	28.8	27.2
Other Cereals	4.1	6.5	7.0	6.4	4.1	4.5	4.3	5.3	3.6	4.2	3.9	3.6	3.4	6.4	3.0
Pulses	8.4	12.7	11.2	10.6	14.3	11.0	18.2	17.1	18.3	19.3	17.2	16.4	23.1	25.4	23.4
Total FGs	**50.8**	**82.0**	**108.4**	**129.6**	**175.4**	**196.8**	**244.5**	**259.3**	**257.1**	**265.0**	**252.0**	**251.6**	**275.1**	**285.0**	**285.0**
Oilseeds#	6.2	7.0	9.6	9.4	18.6	18.4	32.5	29.8	30.9	32.7	27.5	25.3	31.3	31.5	32.3
Sugarcane	57.1	110.0	126.4	154.2	241.0	296	342.4	361.0	341.2	352.1	362.3	348.4	306.1	379.9	400.2
Cotton@	3.0	5.6	4.8	7.0	9.8	9.5	33.0	35.2	34.2	35.9	34.8	30.0	32.6	32.8	27.8
Jute$	3.3	4.1	4.9	6.5	7.9	9.3	10.0	10.7	10.3	11.7	10.6	9.9	10.4	9.6	9.4

- Pulses requirement in India is estimated at about 17 million tons; but actual production has been considerably less than this level during most of the period. However, production of pulses shot up from 16.4 million tons in 2015-16 to 23 million tons in 2016-17. The supply of pulses lagged behind for most of the planning era; India has had to import a large quantity of pulses over the period which constituted 15-20 per cent of our total demand in the country. Recently India has achieved nearly self-sufficiency in pulses and therefore imports are confined to international agreements negotiated earlier
- As far non-food grains group is concerned, the production of oilseeds rose sharply in the latter half of 1980s and the first decade of the present century with minor fluctuations. Just like pulses, there has been a large gap between demand and supply for a considerable period

forcing the country to import large quantities of edible oils. In fact, even at present 60 per cent of demand for edible oils is met out of imports, which is likely to be untenable in the long run.

- Just like pulses, there has been a large gap between demand and supply for a considerable period forcing the country to import large quantities of edible oils. In fact, even at present 60 per cent of demand for edible oils is met out of imports, which is likely to be untenable in the long run.
- Production of cotton which averaged 8 to 9 million bales per annum till 2000-01 rose significantly thereafter due to widespread use of Bt Cotton (a genetically modified pest resistant plant cotton variety) in 2002. From annual production of about 9 million bales in 2000-01, the production rose to 33 million bales in 2010-11 but thereafter it almost stagnated at the same level. Now almost 90 per cent of cotton area is covered under Bt cotton.
- Jute saw a slow and halting progress during the entire period of planning.
- The sugarcane exhibited a consistent increase in production during the four decades period 1952-53 to 2002-03 but thereafter it rose considerably with annual fluctuations.

Trends in Productivity

The agricultural production depends not only on the area but also on the productivity of land. It shows the relationship between inputs and output. The agricultural productivity can be classified into two categories viz. agricultural productivity per hectare and agricultural productivity per worker. Trends in productivity per hectare of major food grains and Non-food grains crops after independence are analysed in Table 1.2.

The Table 1.2 reveals the following trends:

- The yield per hectare of all food grains has increased by about four times from 552 kg per hectare in 1950-51 to 2299 kg per hectare in 2018-19.
- The most significant increase has been recorded by wheat with its yield increasing from 655 kg per hectare to 3507 kg per hectare in 2018-19. Productivity of rice also increased significantly from 1123 kg per hectare in 1970-71 to 2659 kg per hectare in 2018-19.
- Jowar and Bajra recorded much lower rates of growth in productivity.
- Most disappointing has been the performance of pulses with stagnant productivity at around 532 kg per hectare during the period from 1960-61 to 1999-00, thereafter it increased at snail pace to 806 in 2018-19.
- The productivity of maize and cotton has increased in recent years due to adoption of hybrid maize varieties and Bt cotton since 2002 in most areas of the country.

Table 1.2 Trends in Productivity

Crop	1950-51	1960-61	1970-71	1980-81	1990-91	2000-01	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Rice	668	1013	1123	1336	1740	1901	2239	2393	2462	2416	2391	2400	2416	2576	2659
Wheat	655	851	1307	1630	2281	2708	2989	3178	3117	3145	2750	3034	3145	3368	3507
Jowar	353	533	466	660	814	764	949	957	850	957	884	697	957	960	979
Bajra	288	286	622	458	658	688	1079	1171	1198	1184	1255	1132	1184	1231	1242
Maize	547	926	1269	1159	1518	1822	2540	2478	2566	2676	2632	2563	2676	3065	2986
Pulses	441	539	524	473	578	544	691	699	789	764	728	656	764	853	806
Total FGs	**552**	**710**	**872**	**1023**	**1380**	**1626**	**1930**	**2078**	**2079**	**2120**	**2028**	**2042**	**2120**	**2235**	**2299**
Oilseeds*	481	507	579	532	771	810	1193	1133	1168	1168	1075	968	1168	1284	1265
Cotton	88	125	106	152	225	190	499	491	486	510	462	415	510	443	386
Jute	1043	1049	1186	1245	1833	2026	2329	2389	2396	2639	2549	2457	2639	2517	2467

Even if we focus on trends in agricultural growth in post-1991 economic reforms regime, it is observed that new economic policy seems to have bypassed the agriculture sector completely. The comparison in aggregate GDP growth vis-àvis Agri-GDP growth is reflected in Table 1.3.

Table 1.3 Rates of Growth

Years	Overall GDP	Agri-GDP
1991-92 to 1995-96	5.2	2.4
1999-00 to 2003-04	6.0	2.9
2004-05 to 2013-14	8.0	3.7
2014-15 to 2018-19	7.2	1.9

Phases of Indian Agriculture

Agricultural sector in India has moved from a traditional agriculture in the 1950s to the modern, technologically dynamic high capital-intensive agriculture, in which along with food and non-food crops, horticulture and other allied activities have also expanded. In the context of Indian agriculture, three distinct phases of growth can be distinguished as follows:

Phase I: Traditional Agriculture (1951-1966)

— First sub-period (1951-61)

— Second sub-period (1961-66)

Phase II: Technologically Dynamic Agriculture with New Agriculture

Strategy (NAS) (1966 - 2002)

Phase III: Post Green Revolution (GR) Policy/Schematic Initiatives

Phase I: Traditional Agriculture (1951-1966)

This is a technologically stagnant phase in which a larger farm production becomes generally possible only through increased application of all three traditional inputs, viz. land, labour and capital. The rate of increase of output is normally smaller than the rate of increase in inputs-revealing diminishing productivity of inputs, even at a low yield. Till mid-1960s, the Indian agriculture was typically embodied within the characteristics of traditional agriculture.

The primary feature of this period was that production of agricultural crops consistently maintained an upward trend, except for small dips in two years, 1957-58 and 1959-60. Independent India implemented various programmes, listed below, as part of the effort to increase production and to ensure food security.

- Grow More Food Campaign,
- Intensive Agricultural Development Programme (1950-51),
- Community Development Programme (1952),
- National Extension Service (1953), and
- Intensive Agricultural District Programme (1960-61)

Neglect of the agricultural sector during the Second Plan, the short war with China in 1962 and with Pakistan in 1966, the widespread drought in the east India culminated in a food crisis. In 1965-66, food grain production in the country fell from 83 million tons in 1960-61 to 72 million tons. This led to a serious crisis in the Indian economy, as the growth in food grains production was inadequate to meet the consumption needs of the growing population and food imports became essential.

Phase II: Technologically Dynamic Agriculture with New Agriculture Strategy: 1966-2002

This is the beginning of the process of transformation from traditional agriculture to modern agriculture. The distinguishing feature of phase II is the application of science and technology,

evolved by research institutions, in a progressively large scale. The 'New Agricultural Strategy' was India's response to the grave and long - standing food crisis that culminated in the 1960s.

The salient features of the Green Revolution Strategy are briefly listed below: Revolution in Biotechnology: Biotechnology - a hybrid of genetics and chemistry determines the maximum biological performance of plants and animals and also influences the scope and effectiveness of other forms of technology as well.

Green Revolution as Package Programme: consisting of improved seeds, inorganic fertilizer, irrigation, and plant protection code (PPC) combined with agricultural R&D

Central Role of High Yielding Varieties or 'Miracle seeds': The response of the traditional varieties to fertilizer was said to be negative. When they are fertilized with chemicals, they would shoot up even faster, grow dense, stoop and lodge on the ground reducing the photosynthetic work, and in the end would yield even less.

An important characteristic of modern varieties is their ability to utilize nutrients and water efficiently, and to trans-locate more of them to grain formation than to other parts such as leaf. The unique feature of these seeds is that it can grow and work uninterruptedly even under cloudy skies, which drastically cuts down the time needed to produce a crop. This results in a quantum jump in yield.

Spread of Green Revolution limited to irrigated areas.

Confined to Wheat Revolution*:* Presently 90 per cent of lands engaged in wheat cultivation have benefitted from this new agricultural strategy. Most of the HYV seeds are related to wheat crop and major portion of chemical fertilizers are also used in wheat cultivation.

Phase III: Post Green Revolution (GR) Policy/Schematic Initiatives

- The rate of growth of wheat production which was 4 per cent per annum in the pre-green revolution period (1949-50 to1964-65) shot up to 5.7 per cent per annum. During the sub-Phase I, i.e. initial phase of green revolution (1967-68 to1980-81) the rate of productivity doubled over the period from 1.3 per cent per annum to 2.6 per cent per annum. It was due to the adoption of new HYVs of seeds in the irrigated areas in certain regions of the country.
- Other crops picked up in the decade of 1980s, for instance, rice and oilseeds did considerably better in 1980s as compared with 1967-68 to 1980-81 and green revolution started spreading to more crops and this period is termed as the maturing of green revolution.
- During pre-green revolution phase, the contribution of area growth to output growth was 50.1 per cent while that of yield growth was only 38.4 per cent. During the green revolution or post green revolution phase, yield growth became the dominant source of growth of output, i.e. 85.2 per cent of growth was accounted for by yield growth while area expansion only contributed only 14.4 per cent.
- Deceleration in agricultural growth rates in the reform period commencing in 1991: Rate of growth of food grains production fell from 2.9 per cent in 1980s to 2 per cent in 1990s and remains stagnant thereafter at around 1.2 per cent during 1999-2019.Similarly rate of growth of productivity fell from 2.7 per cent in 1980s to 1.51 per cent in 1990s and further decreases to 1.3 per cent during the period 2000-19.

Thus in the reform period, the resurgent growth in agriculture from mid-1960s was arrested. Green revolution generated employment opportunities in diverse activities which were created as a result of multiple cropping and mechanisation of farming. It helped to stimulate non-farm economy that generated newer employment in various services such as milling, marketing, warehousing, etc. Another positive effect of Green Revolution is the ploughing back of increased profits in agriculture. Increased production and productivity of food grains in post green revolution period not only helped in maintaining the price stability in food grains but also strengthened the forward and backward linkages with industry.

Negative socio-economic impacts of Green Revolution

The new agriculture strategy has resulted in increased productivity and returns for farmers. However, the revolution resulted into increased income with wide interpersonal and regional inequality and inequitable asset distribution:

1. Being costly, NAS was adopted by large farmers resulting in interpersonal inequalities.
2. NAS was confined to only irrigated areas, resulting in an increase in regional disparities.
3. Restrictive Crop Coverage: The new agriculture strategy involving use of HYV seeds was initially limited to wheat and other major crop rice responded much later. The progress of developing and application of HYV seeds in other crops especially commercial crops like oilseeds, jute, etc. has been very slow. In fact, in a certain period, a decline in the output of commercial crops is witnessed because of diversion of area under commercial crop to food crop production.

1.3 Industrial Sector in India after Independence

Industrialisation has come to be regarded as synonymous with economic development. There is hardly a country in the world that could reach the level of per capita income of industrially developed countries of the West, on the back of its agriculture and processing of its products. (Petroleum producing countries, like Saudi Arabia, Kuwait and UAE represent a special case or exception to the positive relationship between per capita income and the share of manufacture.) The essential criteria that are being used to distinguish a developed economy from a developing one relate to the proportion of work force engaged in industrial activity, the proportion of national output originating in the industrial sector, etc.

India was one of the pioneers of industrialisation in the Third World, riding piggy back on a modern infrastructure — all-weather roads, railways, irrigation etc., the foundation of which was laid during the British Rule. Indian industries clearly reflected India's comparative advantage. India's industrial performance and manufacturing export performance were among the best in the world.

With Independence, India turned its back on an open economy in pursuit of its objective of industrial self-sufficiency. As a result, industrial structure has become considerably broad-based. The changes in the structure of industrial growth in India during the last six decades can be more easily examined and analyzed under two broad heads, viz.,

i) Dimensions of Industrial Growth, and
ii) Pattern of Industrialisation

Dimensions of Industrial Growth

The New Economic Policy declared in 1991 has acted as a watershed year for economic analysis pertaining to India. Therefore, while analysing the industrial growth in India, we are taking the pre-reforms period and the post reforms period.

Pre- Reforms Period

1947 to 1966: The Age of Regulation

Industrial growth was rapid during the first two decades, especially during the Second Plan and the Third Plan. The Second Plan will go as a landmark in the industrial history of India in as much as it introduced an industrial revolution in the country — especially in the matter of acquiring basic industrial muscle. The pace continued during the subsequent Third Plan also. The high rates of industrial growth witnessed during the period were due to:

i) Emphasis on industrialisation in economic policies,

ii) The heavy industry-oriented strategy of industrialisation, and the pursuit of industrial growth as a supreme objective in the industrial policy and planning,

iii) The substantial investments made and the capacities created in industrial sector as follow-up of the first two decisions,

iv) Growing demands for a variety of new products on the part of the consumers in urban areas and the relatively better-off sections of the community,

v) Pace of economic expansion which, though not spectacular, was yet made possible by an unusual combination of domestic saving and inflows or resources from abroad.

This period of growth has been named the period of "industrial growth with regulation".

Decade of 1970s

Industrial growth slowed down after the Third Plan. Not only industry stagnated during this period, 'a blatantly elite-oriented production structure' came into existence. The most damaging aspect of this was a steady decline in per capita domestic availability of key wage goods and an increase in the number of people below the poverty line. The structural retrogression took place at two stages:

i) Growth of basic and capital goods industries was slower than even the meagre average growth in industrial output.

ii) Where growth was moderately high, a majority of the industries belonged either directly or indirectly to elite-oriented consumption goods sector.

A disproportionately large increase in the output of man-made fibers, beverages, perfumes and cosmetics, commercial and office clocks, finer varieties of cloth, etc., took place. This phenomenon emerged at the cost of allocation of investible funds for mass consumption goods.

Thus, an imbalance in the industrial structure took place. Causes of Slow Growth of Industries: A number of explanations have been offered for slow growth of industries during this period. These explanations cover a wide spectrum. At one end, there are those who located the cause for deceleration in the periodic shocks that the economy had received in the form of wars in 1965 and 1971, the oil crisis in 1973, and the droughts in 1965 and 1966. According to them, it is these shocks that prevented the economy from gaining momentum and achieving a higher rate of industrial growth. But, at the other end, some economists asserted that the crisis in industrial growth is rooted in the path of development that India has adopted and that there is no way out unless the fundamental property relations and structure of income distribution are altered. Among the various explanations, four major factors which contributed to industrial stagnation could be identified as follows:

i) Slow growth of agricultural incomes and their effect on limiting the demand for industrial goods

ii) Slowdown in public investment after the mid-1960s with its particular impact on the infrastructural investment

iii) Poor management of the infrastructure sectors, leading to severe infrastructure constraints

iv) Industrial policy framework including both domestic industrial policies and trade policies and their effects on creating a high cost industrial structure in the economy.

Besides, to be fair, it is important that simpler/explanations are not ruled out, like an erosion of the discipline of planning, a substantial decline in targeted level in investment and the desire to force savings.

Revival During the 1980s

The industrial scene underwent a change with the onset of the 1980s. Industrial growth rate moved up during this period, and the stagnation which characterized the earlier period could be overcome.

The major factors that contributed to this 'turnaround' can briefly be summarized as follows:

i) Liberalisation of industrial policy; the process began in early 1980s, and caught up since 1985.

ii) Public investment which played a crucial role in determining the growth of Indian industry had been at a much higher level during the 1980s than in the 1970s.

iii) There had been a noticeable improvement in the investment made by the private corporate manufacturing sector.

iv) Increased investment in industry got corroborated by the dramatic rise in imports of capital goods in the 1980s.

v) Rapid investment in industry was facilitated by what has come to be known as 'liberal fiscal regime'. By this we mean a regime in which many of the standard precepts of traditional public finance were abandoned. The most significant feature of such a regime is the maintenance of high budgetary deficits year after year. A second feature is the resort to massive borrowing, often at high interest rates, and finally the encouragement of dissaving. The 1980s, especially the second half, witnessed all these phenomena.

vi) Better performance of infrastructure industries as a consequence of improvement in the rate and pattern of gross domestic capital formation in general and public investment in particular.

vii) A decline in the inter-sectoral terms of trade in favour of non-agriculture.

viii) The State's role in stimulating industrial recovery during 1980s has been stimulating, through indirect, i.e., through the provision of jobs and incomes to a burgeoning middle class by creating a sprawling administrative empire. Just my phone eczema (Today, middle class accounts for about 300 million population which is more than the entire populations of France and Great Britain put together.)

Thus, the difference between this phase of industrial growth and what occurred over the first decade and a-half of planned development is that its mediation through incomes directly generated by the State permits a degree of percolation down to slightly lower income level of the demand for commodities which were earlier consumed only in the highest income segments of the population.

Quality of Growth: An analysis of industrial revival would be incomplete without a comment on the quality of the growth. The structural distortion brought about in the 1980s had also its effects at the micro-level. Within the secondary sector, the share of the elite-oriented products increased at a perceptibly faster pace than that of others. The structural distortion at this micro level continued in the 1980s too, but the distortion at the macro level was certainly arrested. Yet another feature of industrial performance over the period was that growth rates of value added were higher in the 1980s than what they were in the 1970s.

Slowdown: Towards the end of 1980s, however, the growth rate of industrial production slowed down. The major cause for deceleration in industrial growth was the relatively lower rate of growth in capital expenditure, resulting from the need to reduce the overall deficit. The other factors responsible for deceleration can be summed up as

(i) shortage of raw materials and other inputs,

(ii) infrastructural difficulties, and

(iii) obsolete machinery and technology and the consequent high costs.

Post-Reforms Period

The post reform period up to 2000-01 was marked by considerable fluctuations and thus showed a total lack of consistency in industrial growth performance. Table 2 indicates trends in growth rates of overall industrial production and its three major components viz. Mining, Manufacturing and Electricity.

After a sharp fall to 0.6 per cent in 1991-92, the industrial growth rate exhibited a rising trend from 1992-93 registering an overall growth of 2.3 per cent during 1992-93, 6.0 per cent in 1993-94, 9.1 per cent in 1994-95 and further to 13.0 per cent in 1995-96. After reaching a peak in 1995-96, industrial growth slowed down considerable in 1996-97 (6.1 per cent) and registered a marginal improvement (6.7 per cent) in 1997-98. The downward trend continued in the next year too, with industrial growth falling to 4.1 per cent in 1998-99. The slowdown of industrial growth in three consecutive years was mainly due to the poor performance of electricity generation, mining, and decline in agriculture production in 1997-98. It also affected rural incomes which directly resulted in lower demand for certain industrial product, capital markets remained depressed for the past couple of years, drying up source of investment funds for industry, export growth had been sluggish in 1996-97, low demand for exports adversely affected industrial production and several industries had been subject to competitive pressure from imports. After a turnaround in 1999-2000, industrial growth slowed down during 2000-01. Overall, industrial growth during 2000-01 at 5.0 per cent was lower than 6.7 per cent during the corresponding period in 1999-2000. The average rates of growth of Indian Industry in the post reform period (1991-92 to 2000-01) were 6.0 per cent, the growth of manufacturing sector was 6.3 per cent, mining 3.3 per cent, and electricity was 6.6 per cent.

The average annual growth rate of industrial production which was 7.8 per cent in the pre-reform decade (1981-82 to 1990-91) fell to 6.0 per cent during the period 1991-92 to 2000-01. The main causes of unsatisfactory industrial performance in post reform period up to 2000-01 were exposure to external competition, slowdown in investment, infrastructure constraints, and difficulties in obtained funds for expansion, sluggish growth in exports, anomalies in tariff structure and contraction in consumer demand.

Exposure to External Competition: According to the Planning Commission, the most important reason for lower growth rate during the Eighth Five Year Plan period as compared to the Seventh Five Year Plan period seems to be that "the industrial sector, which had been almost totally protected from both industrial as well as external competition during the previous four decades, was suddenly exposed to foreign competition through a significant liberalisation of imports and drastic reduction in import duties. The industry was hardly prepared for it and the slowdown was only to be expected."

Slowdown in Investment: An important reason for the slowdown of industrial growth in 1990s was the slowdown of investment. It is a known fact that capital formation in the public and private sectors provides a stimulus for industrial growth in the form of both the direct demand or purchases that such expenditures involves, and the indirect demand resulting from income generation by investments. However, consequent upon the adoption of the „micro-economic adjustment‟ programme of the IMF in 1991, the Government of India was forced to cut down public expenditure drastically. In physical terms, the decline in public investment is perhaps best captured in the precipitous fall in the growth of electricity generation capacity from 8-10 per cent in the 1980s to 4-6 per cent in the 1990s. Since there is a strong complementarily between public investment and private investment, a reduction in the rate of growth of real public investment had a depressing effect on private investment as well.

The Infrastructure Constraints: Perhaps the most important reason for unsatisfactory performance of the industrial sector has been the deteriorating state of infrastructure. Industrial production has suffered not only on account of inadequate availability of infrastructure like power and transportation bottlenecks, inadequate handling facilities at ports etc., but also due to poor quality of infrastructure like frequent and unscheduled power breakdowns, poor road conditions, unduly long handling time at ports etc. All these factors added to the real costs of manufacture and thus adversely affected the competitiveness of domestic industry.

Difficulties in Obtaining Funds for Expansion: Orderly development of capital market is an important condition for industrial growth because in its absence, the private sector capitalists will face difficulties in raising resources for expansion. The period since 1991 witnessed two stock market scams- one in 1992 and the other in March-April 2001. These scams seriously eroded investor confidence. Subscriptions to IPOs (Initial Public Offering) fell drastically leading to a setback to the „primary market‟. Trading in stock exchanges i.e. secondary market‟ also fell.

Because of this, capitalists found it difficult to raise resources from the capital market for funding their expansion plans. The performance of financial institutions like IFCI (Industrial Finance Corporation of India Ltd.), IDBI (Industrial Development Bank of India Ltd.), etc., has been worrisome, as nonperforming assets (NPAs) have become quite large. Thus, the flow of funds from the financial institutions to the corporate sector was also not adequate.

Sluggish Growth in Exports: In a number of years during 1990s, exports grew at a very low rate. This was due to increasing competition in the international market on the one hand and inability of domestic industry to meet external competition by ensuring quality products, keeping to delivery schedule etc. On the other hand, the outbreak of the East-Asian crisis in mid-1997 compounded the problems for Indian exporters, as there was a sharp depreciation in the external value of the currencies of this region. This made Indian exports uncompetitive in international markets as against the exports from countries belonging to the East-Asian region.

Anomalies in Tariff Structure: According to the Ninth Five Year Plan, there were anomalies in tariff structure leading to large-scale imports of second-hand machinery, basic materials and intermediate products. This adversely affected industrial growth in these sectors. In the case of fertilizer sector and refineries, while the finished capital goods enjoyed „zero" rate of import duty, the domestic manufacturers were subject to taxes, duties, and import duties on intermediates and components.

Contraction in Consumers Demand: There was acute contraction in consumers demand in 1990s. Three distinct explanations can be offered to explain this contraction. First, the rural purchasing power was severely affected by lower agricultural growth and increased fluctuations in growth in the 1990s. Secondly, Indian Industry was faced with depressed purchasing power not only from the rural sector but also from the urban sector. The substantial wealth erosion caused by the fall in the equities and real estate markets also hampered the average urban consumers proclivity to spend. Finally, there were distinct signs of growing inequalities in the distribution of income, and in the face of reduced employment growth as well as deterioration in the quality of employment, purchasing power in the hands of the vast masses of urban population possibly declined.

1.4 Import Substitution Policy of India

The concept of import substitution goes back ages to the 1780s when the "infant industry argument" was first talked about. The argument was that domestic industry cannot very easily compete with external industry, as they are new in the business. The external players, whereas, have a lot of experience, and access to funds at favorable good rates. Thus, the domestic industry needs protection to compete, before they can compete with the outside world. During the period of protection, domestic companies are supposed to grow through learning by doing. The newborn companies will work in a protected market and will learn to become competitive before they can face the rest of the world.

In 1950s and 1960s, Japan and South Korea practiced import substitution. They raised their tariff barriers to build up domestic capacity very successfully. During the time, the domestic companies became able to compete with the rest of the world in the outside model. Today, however, the meaning of import substitution is very different. The first reason for this is that WTO does not allow the kind of import substitution that could be practiced in the 1950s. The second is the nature of trade which has changed completely since the 1950s and 1960s. In the last century and maybe in the 19th century as well, we had three classes of trade which are primary goods, manufactured or secondary goods, and tertiary goods like services.

Import substitution is a strategy under trade policy that abolishes the import of foreign products and encourages production in the domestic market. The purpose of this policy is to change the economic structure of the country by replacing foreign goods with domestic goods.

Post-independence India adopted the policy of import substitution by imposing heavy tariffs on import duty. The industrial policy that the country endorsed was linked to the trade policy. In the first seven Five-Year plans, trade in India was distinguished by the inward-looking trade strategy. This strategy is known as import substitution, which aims to boost domestic production and shield domestic products from international competition.

Trade Policy

Trade policy can be defined as goals, rules, standards, and regulations that are involved in the trade between countries. These policies are particular to a specific country and are formed by its public officials. A country's trade policy covers taxes imposed on inspection regulations, import and export, and tariffs and quotas.

Under this policy, the government protects domestic manufacturers from foreign competition. The protection from import is done in the following two forms:

Quota: It specifies the number of goods that can be imported.

Tariff: It is a tax that is imposed on imported products. This tax makes imported products more costly and discourages their use.

The purpose of quotas and tariffs is to restrict imports and therefore, protect domestic industries from foreign competition.

Trade Policy on Industry Development

The accomplishments of India's industrial sector for the first seven Five-Year plans were impressive. The GDP in the industrial sector increased from 11.8 percent between 1950-51 to 24.6 percent between 1990-91. By 1990, the Indian industry saw a huge growth and was no longer restricted only to jute and cotton textile industries.

Also, the promotion of small-scale industries gave an opportunity to people who did not have money to start a company and facilitated the development of domestic industries in the electronics and automobile sectors.

Public Sector

The Five-Year plan saw extensive growth in the public sector with major industries like air travel, telecom, defence, and railway. However, a few economists are critical about the performance of many public sector enterprises, even though they have contributed hugely to the growth of the Indian economy.

Post-independence, public sector companies were considered to be an essential part of the Indian economy and continued to produce goods and services by sometimes monopolizing them. However, a few economists made a judgment that these public sector companies were actually hindering the entrance of private players into the market.

In this regard, the best example is the telecommunication industry. Until 1990, the state had the monopoly over this industry. Though the private sector companies were competent in implementing this service, the state never permitted any licenses, giving the consumer a very slow and poor service.

Many public firms faced huge losses but continued their functions because closing a government-run organization is difficult even if the natural resources are drained. Therefore, for some decades, the government authorized these organizations to run inefficiently.

Summary

This chapter looks at the various phases of Indian economy after independence. India started off as an agrarian economy and till date much is not changed in terms of the people dependent on it for livelihood. Initially the policymakers were concerned about the food grain production and becoming self-sufficient in terms of the food requirements of the country and the policies designed were accordingly. The Green Revolution initiated in the 1960s delivered in terms of becoming self-sufficient though in the next few decades the negatives of the policy also became evident. As per economic theory there has to be a transition from a primary sector lead economy to a secondary sector lead economy and the policies designed in India were according to this theory as the industrial policies from 1948 onwards emphasised on the role of industry in the economy. However, the protectionism followed in the name of import substitution and giving protection to the nascent industries of the country later showed that there was not much gained as per this policy as the industries were not efficient and became vehicles of corruption and political cronyism.

Keywords

Agriculture: Agriculture is the practice of cultivating plants and livestock. Agriculture was the key development in the rise of sedentary human civilization, whereby farming of domesticated species created food surpluses that enabled people to live in cities.

Industry: An industry is a group of companies that are related based on their primary business activities. In modern economies, there are dozens of industry classifications. Industry classifications are typically grouped into larger categories called sectors.

Import Substitution: Import substitution is a strategy under trade policy that abolishes the import of foreign products and encourages production in the domestic market.

National Income: The aggregate of earnings from a nation's current production including compensation of employees, interest, rental income, and profits of business after taxes

Self Assessment

1. Who was the first person to estimate National Income of India?
   - A. Findlay Shiras
   - B. Dadabhai Naoroji
   - C. William Digby
   - D. P C Mahalanobis

2. Who amongst the following did not estimate the National Income?
   - A. V K R V Rao
   - B. Dadabhai Naoroji
   - C. R C Desai
   - D. P C Mahalanobis

3. Who was not part of the National Income Committee?
   - A. V K R V Rao
   - B. P C Mahalanobis
   - C. D R Gadgil
   - D. Jawahar Lal Nehru

4. The difference between the National Income and the Per Capita Income is accounted for by
   - A. Change of base year
   - B. Size of population
   - C. Difference in calculation
   - D. None of the above

5. If per capita income is increasing it means that
   - A. Rate of growth of national income is more than the growth of population
   - B. Rate of growth of national income is less than the growth of population
   - C. Depends on the situation of the economy
   - D. Differs with the size of the economy

6. In which of the following Five Year Plan, we did not achieve the growth target?
   - A. I Five Year Plan

B. II Five Year Plan
C. III Five Year Plan
D. V Five Year Plan

7. What is the current base year of India?
   A. 2004-05
   B. 2011-12
   C. 2018-19
   D. There is no base year

8. What was the method used for estimating national income by National Income Committee?
   A. Income method
   B. Value added method
   C. Product method
   D. Both income and product method

9. The first phase of the agrarian policy includes which years?
   A. 1950-1965
   B. 1970-1983
   C. 1947-1955

10. What was the land ceiling decided in the second phase of the agrarian policy?
    A. 5 to 100 acres
    B. 10 to 54 acres
    C. 10 to 55 acres
    D. 5 to 54 acres

11. Which committee attempted state trading of wheat and rice?
    A. Food grains price committee
    B. Food grains enquiry committee
    C. Central land reforms commission
    D. None of the above

12. When was export subsidization introduced in India?
    A. 1960
    B. 1961
    C. 1962
    D. 1963

13. When was the food security act enacted?
    A. 2005
    B. 2013
    C. 2014
    D. 2018

14. Does Food Corporation of India buy the food grains on MSP
    A. True
    B. False

15. The development of heavy industries was undertaken in which Industrial policy?
    A. Industrial Policy 1948
    B. Industrial Policy 1951
    C. Industrial Policy 1956
    D. Industrial Policy 1991

Answers for Self Assessment

1.	B	2.	D	3.	D	4.	B	5.	A
6.	C	7.	B	8.	D	9.	A	10.	B
11.	B	12.	C	13.	B	14.	A	15.	C

Review Questions

1. Evaluate the agriculture of India since independence.
2. Why did the industrialization process not take off as per the intentions of the government?
3. How is the Aatmanirbhar Bharat policy similar (dissimilar) to the import substitution policy of the earlier years?
4. Did import substitution policy deliver the desired results as perceived by the policy makers?
5. What are the policy changes you would make if you were a part of the Planning Commission in 1960?

Further Readings

B R Tomlinson, The Economy of Modern India: From 1860 to The Twenty First Century, Cambridge University Press.

Tirthankar Roy, The Economic History of India: 1857-1947, Oxford University Press

Unit 02: Human Development

CONTENTS

Objectives

Introduction

2.1 Human Development Index

2.2 Features of Developing Countries

2.3 Millennium Development Goals

2.4 Sustainable Development Goals

Summary

Keywords

Self Assessment

Answers for Self Assessment

Review Questions

Further Readings

Objectives

Discuss the Human Development Index

Discuss the characteristics of Developing Countries

Evaluate the MDG and SDG with respect to India

Introduction

The World Bank classifies the countries into four categories based on purchasing power parity or PPP as it is popularly known as. This classification is based on the economic development of the country but fails to show the distribution of the income. The per capita income indicator of development is criticised because it is just an average and as per statistical rules it is affected by outliers. If someone is interested to know the well being of individuals of a country, then she has to turn to HDI as it is an index that measures human development. Prior to 1990, there was no measure for human development. It was only after 1990 that United Nations Development Program (UNDP) started measuring the human development index for all the countries and ranking them. It forced the countries to work on these indicators so as to improve their ranks. It is an approach that is focused on people and their opportunities and choices.

People: human development focuses on improving the lives people lead rather than assuming that economic growth will lead, automatically, to greater wellbeing for all. Income growth is seen as a means to development, rather than an end in itself.

Opportunities: human development is about giving people more freedom to live lives they value. In effect this means developing people's abilities and giving them a chance to use them. For example, educating a girl would build her skills, but it is of little use if she is denied access to jobs, or does not have the right skills for the local labour market. Three foundations for human development are to live a long, healthy and creative life, to be knowledgeable, and to have access to resources needed for a decent standard of living. Many other things are important too, especially in helping to create the right conditions for human development, and some of these are in the table below. Once the basics of human development are achieved, they open up opportunities for progress in other aspects of life.

Choice: human development is, fundamentally, about more choice. It is about providing people with opportunities, not insisting that they make use of them. No one can guarantee human happiness, and the choices people make are their own concern. The process of development –

human development - should at least create an environment for people, individually and collectively, to develop to their full potential and to have a reasonable chance of leading productive and creative lives that they value.

As the international community moves toward implementing and monitoring the 2030 agenda, the human development approach remains useful to articulating the objectives of development and improving people's well-being by ensuring an equitable, sustainable and stable planet.

2.1 Human Development Index

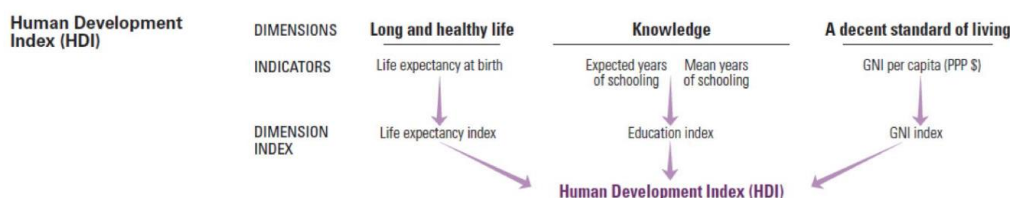
The HDI was created to emphasize that people and their capabilities should be the ultimate criteria for assessing the development of a country, not economic growth alone. The HDI can also be used to question national policy choices, asking how two countries with the same level of GNI per capita can end up with different human development outcomes. These contrasts can stimulate debate about government policy priorities.

The Human Development Index (HDI) is a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and have a decent standard of living. The HDI is the geometric mean of normalized indices for each of the three dimensions.

The health dimension is assessed by life expectancy at birth, the education dimension is measured by mean of years of schooling for adults aged 25 years and more and expected years of schooling for children of school entering age. The standard of living dimension is measured by gross national income per capita. The HDI uses the logarithm of income, to reflect the diminishing importance of income with increasing GNI. The scores for the three HDI dimension indices are then aggregated into a composite index using geometric mean. Refer to Technical notes for more details.

The HDI simplifies and captures only part of what human development entails. It does not reflect on inequalities, poverty, human security, empowerment, etc. The HDRO offers the other composite indices as broader proxy on some of the key issues of human development, inequality, gender disparity and poverty.

A fuller picture of a country's level of human development requires analysis of other indicators and information presented in the statistical annex of the report.



Steps to Calculate Human Development Index Values

There are two steps in calculating the HDI.

Step1. Creating the dimension indices

Minimum and maximum values (goalposts) are set in order to transform the indicators expressed in different units into indices between 0 and 1. These goalposts act as "the natural zeros" and "aspirational targets", respectively, from which component indicators are standardized (see equation 1 below). They are set at the following values:

Dimension	Indicator	Minimum	Maximum
Health	Life expectancy (years)	20	85
Education	Expected years of schooling (years)	0	18
	Mean years of schooling (years)	0	15
Standard of living	GNI per capita (2017 PPP$)	100	75,000

The justification for placing the natural zero for life expectancy at 20 years is based on historical evidence that no country in the 20th century had a life expectancy of less than 20 years (Maddison 2010; Oeppen and Vaupel 2002; Riley 2005). Maximum life expectancy is set at 85, a realistic aspirational target for many countries over the last 30 years. Due to constantly improving living conditions and medical advances, life expectancy has already come very close to 85 years in several economies: 84.9 years in Hong Kong, China (Special Administrative Region) and 84.6 years in Japan.

Societies can subsist without formal education, justifying the education minimum of 0 years. The maximum for expected years of schooling, 18, is equivalent to achieving a master's degree in most countries. The maximum for mean years of schooling, 15, is the projected maximum of this indicator for 2025.

The low minimum value for gross national income (GNI) per capita, $100, is justified by the considerable amount of unmeasured subsistence and nonmarket production in economies close to the minimum, which is not captured in the official data. The maximum is set at $75,000 per capita. Kahneman and Deaton (2010) have shown that there is virtually no gain in human development and wellbeing from annual income above $75,000 per capita. Currently, only three countries (Liechtenstein, Qatar and Singapore) exceed the $75,000 income per capita ceiling.

Having defined the minimum and maximum values, the dimension indices are calculated as:

Dimension Index= (Actual Value-Minimum Value)/(Maximum Value-Minimum Value)

For the education dimension, equation 1 is first applied to each of the two indicators, and then the arithmetic mean of the two resulting indices is taken. Using the arithmetic mean of the two education indices allows perfect substitutability between expected years of schooling and mean years of schooling, which seems to be right given that many developing countries have low school attainment among adults but are very eager to achieve universal primary and secondary school enrolment among school-age children. Because each dimension index is a proxy for capabilities in the corresponding dimension, the transformation function from income to capabilities is likely to be concave (Anand and Sen 2000)—that is, each additional dollar of income has a smaller effect on expanding capabilities. Thus, for income the natural logarithm of the actual, minimum and maximum values is used.

Step 2. Aggregating the dimensional indices

The HDI is the geometric mean of the three-dimensional indices:

$$HDI = I_{Health}, I_{Education}, I_{Income})^{1/3}$$

Example: India

Indicator	Value
Life Expectancy at Birth (in Years)	69.7
Expected Years of Schooling	12.2
Mean Years of Schooling	6.5
Gross National Income Per Capita (2017 PPP $)	6681

$$Health\ Index = (65.3 - 20)/(85 - 20) = 0.76$$

$$Expected\ Years\ of\ Schooling = (12.2 - 0)/(18 - 0) = 0.67$$

$$Mean\ Years\ of\ Schooling = (6.5 - 0)/(15 - 0) = 0.43$$

$$Education\ Index = (0.67 + 0.43)/2 = 0.55$$

$$Income\ Index = (ln6681 - ln100)/(ln75000 - ln100) = 0.936$$

Methodology used to express income

The World Bank's 2020 World Development Indicators database contains estimates of GNI per capita in constant 2017 purchasing power parity (PPP) terms for many countries. For countries missing this indicator (entirely or partly), the Human Development Report Office (HDRO) calculates it by converting GNI per capita in local currency from current to constant

terms using two steps. First, the value of GNI per capita in current terms is converted into PPP terms for the base year (2017). Second, a time series of GNI per capita in 2017 PPP constant terms is constructed by applying the real growth rates to the GNI per capita in PPP terms for the base year. The real growth rate is implied by the ratio of the nominal growth of GNI per capita in current local currency terms to the GDP deflator.

For several countries without a value of GNI per capita in constant 2017 PPP terms for 2019 reported in the World Development Indicators database, real growth rates of GDP per capita available in the World Development Indicators database or in the International Monetary Fund's Economic Outlook database are applied to the most recent GNI values in constant PPP terms.

Official PPP conversion rates are produced by the International Comparison Program, whose surveys periodically collect thousands of prices of matched goods and services in many countries. The last round of this exercise refers to 2017 and covered 176 economies.

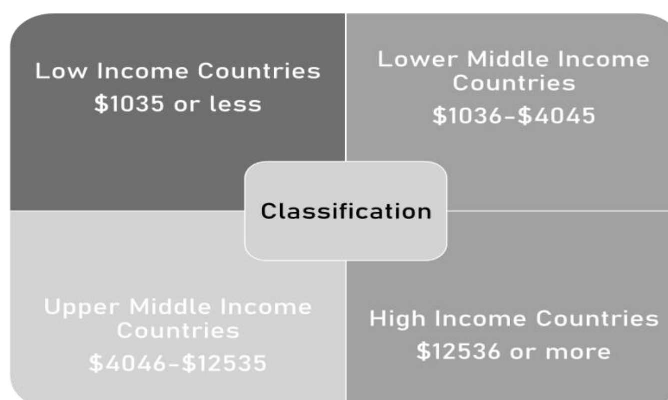
Human Development Index aggregates

Aggregate HDI values for country groups (by human development category, region and the like) are calculated by applying the HDI formula to the weighted group averages of component indicators. Life expectancy and GNI per capita are weighted by total population, expected years of schooling is weighted by population ages 5–24 and mean years of schooling is weighted by population ages 25 and older.

2.2 Features of Developing Countries

World Bank classifies all the countries of the world in terms of income into four groups. This classification is updated every year on July 1 and is based on per capita Gross National Income (GNI) in current USD using the Atlas method exchange rates of the previous year.

Fig. 2.1 Classification of Countries as per the World Bank



India falls in the lower middle income economies as per the latest classification of the World Bank. There is no formal definition of developing countries. United Nations has no formal definition of developing countries but classifies as many as 159 countries as developing countries. UNDPs Human Development Index is also a classification.

The features of developing countries are as follows:

Low Per Capita Real Income

Low per capita real income is one of the most defining characteristics of developing economies. They suffer from low per capita real income level, which results in low savings and low investments. It means the average person doesn't earn enough money to invest or save money. They spend whatever they make. Thus, it creates a cycle of poverty that most of the population struggles to escape. The percentage of people in absolute poverty (the minimum income level) is high in developing countries.

High Population Growth Rate

Another common characteristic of developing countries is that they either have high population growth rates or large populations. Often, this is because of a lack of family planning options, lack of sex education and the belief that more children could result in a higher labor force for the family to

earn income. This increase in recent decades could be because of higher birth rates and reduced death rates through improved health care.

High Rates of Unemployment

In rural areas, unemployment suffers from large seasonal variations. However, unemployment is a more complex problem requiring policies beyond traditional fixes. In India, with the gradual development of various sectors of the economy, the country started to generate employment opportunities for the people of the country. The unemployment rate in India as on 15th December 2021 is 7.4% (Urban 9% and Rural 6.7%).

Dependence on Primary Sector

Almost 75% of the population of low-income countries is rurally based. As income levels rise, the structure of demand changes, which leads to a rise in the manufacturing sector and then the services sector. In India, the sectoral contribution of national income is an important indicator of the degree of development attained in the economy. The contribution of primary sector which is composed of agriculture, forestry, fishery and mining has gradually declined from 56.4 per cent of GDP in 1950-51 to 45.8 per cent in 1970-71 and then finally to 19.07 per cent in 2014-2015. The contribution of agriculture alone has also declined from 48.6 per cent of GDP in 1950-51 to 39.7 per cent in 1970-71 and then to 24.0 per cent in 1996-97. In the past two years there is an increase in the share of agriculture because of the pandemic. It was 17.6 per cent to the GVA in 2018-19 which increased to 18.4 per cent in 2019-20 and 20.2 per cent in 2020-21.

2.3 Millennium Development Goals

In 2000, 189 nations made a promise to free people from extreme poverty and multiple deprivations. This pledge became the eight Millennium Development Goals to be achieved by 2015. In September 2010, the world recommitted itself to accelerate progress towards these goals. UNDP supports a range of local capacity development initiatives that address implementation challenges. UNDP works directly with more than 15 central ministries and several states, strengthening capacity of elected representatives and government officials at state, district and local levels and strategic government development programmes and schemes which are geared towards achievement of MDG and national development goals. The process of preparation of human development reports has been instrumental in generating awareness on MDGs at the state and district levels and the policy and statistical challenges around attaining MDGs. The eight MDGs are given in fig. 2.2

Fig. 2.2 Millennium Development Goals

Goal 1: Eradicate Extreme Hunger and Poverty

India has been moderately successful in reducing poverty. In 1990, the all India Poverty Head Count Ratio (PHCR) was estimated to be 47.8%. In order to meet the 2015 target, the PHCR level has to be 23.9%. In 2011-12, the PHCR was 21.9%. This indicates that, India has achieved the

poverty reduction target, however, progress is uneven. Faster reduction in poverty since the mid-2000s helped India halve the incidence of poverty. This was a result of both: economic growth (including in agriculture) as well as increased social spending on interventions such as MGNREGA and the National Rural Health Mission (NRHM). Nevertheless, estimates from 2012 reveal that, over 270 million Indians continue to live in extreme poverty – making the post-2015 goal of eliminating extreme poverty by 2030 challenging, but feasible.

However, eradicating hunger remains a key challenge. India is home to one quarter of the world's undernourished population, over a third of the world's underweight children, and nearly a third of the world's food-insecure people. Malnourishment and food insecurity are interlinked. In 1990, when the MDGs were formulated, 53.5 percent of all Indian children were malnourished. Since then, progress has been slow. In India, the proportion of underweight children below three years has declined marginally between 1998-99 and 2005-06 to 46 percent. In 2015, malnourishment declined to 40 percent. This is still below the target of reducing malnourishment to 26 percent.

Goal 2: Achieve Universal Primary Education

India has made significant progress in universalizing primary education, and is moderately on track to achieve this Millennium Development Goal. Enrolment and completion rates of girls in primary school have improved and are catching up with those of boys, as are elementary completion rates. At the national level, male and female youth literacy rate is likely to be at 94.81% and 92.47%.

In 2009, India introduced the Right of Children to Free and Compulsory Education Act (RTE), however the quality of education remains a major concern. Another issue, which will have to be addressed, is the large numbers of children remaining out of school and failing to complete primary education, particularly in the case of girls, children in rural areas and those belonging to minority communities.

Goal 3: Promote Gender Equality and Empower Women

India is on track to achieve gender parity at all education levels, having already achieved it at the primary level. But women's literacy rates lag behind that of men, indicating women's poorer learning outcomes and opportunities.

As of August 2015, India, the world's largest democracy, has only 65 women representatives out of 542 members in Lok Sabha, while there are 31 female representatives in the 242 member Rajya Sabha and hence presently the proportion of seats in National Parliament held by women is only 12.24% against the target of 50%.

Goal 4: Reduce Child Mortality

The fourth Millennium Development Goal aims to reduce mortality among children under five by two-thirds. India's Under Five Mortality (U5MR) declined from 125 per 1,000 live births in 1990 to 49 per 1,000 live births in 2013. The MDG target is of 42 per 1000, which suggests that India is moderately on track, largely due to the sharp decline in recent years.

Child survival in India needs sharper focus. This includes better managing neonatal and childhood illnesses and improving child survival, particularly among vulnerable communities. Survival risk remains a key challenge for the disadvantaged who have little access to reproductive and child health services. Major states in the heartland of India are likely to fall significantly short of these targets. IMR is lowest in Kerala (12) and highest for Madhya Pradesh (54). The key to significant progress in reducing U5MR and infant mortality rates rests with reducing neonatal deaths, that is, infant deaths that occur within a year of birth at a fast pace.

The large scale of under-nutrition in expectant mothers and children poses a critical development challenge for India. On a positive note, various Ministries under the Government of India are implementing child centric policies and programmes which are vigorously attending the issues related to child health. This includes the National Policy on Children (2013); National Policy on Early Childhood Care and Education; Integrated Child Development Services (ICDS) and other initiatives focusing on holistic child development.

Goal 5: Improve Maternal Health

From a Maternal Mortality Rate (MMR) of 556 per 100,000 live births in 1990-91, India is required to reduce MMR to 139 per 100,000 live births by 2015. Between 1990 and 2006, there has been some improvement in the Maternal Mortality Rate (MMR), which has declined to 167 per 100,000 live births in 2009. However, despite this, India's progress on this goal has been slow and off track.

Safe motherhood depends on the delivery by trained personnel, particularly through institutional facilities. Delivery in institutional facilities has risen from 26 percent in 1992-93 to 72 percent in 2009. Consequently, deliveries by skilled personnel have increased at the same pace, from 33 percent to 76.2 percent in the same period.

One contributing factor has been the introduction of a conditional cash transfer scheme, Janani Suraksha Yojana which improved the delivery of babies in hospitals and nursing homes to 72 per cent in 2009. However, the quality of maternal care remains a concern.

Goal 6: Combat HIV/AIDS, Malaria and Other Diseases

Targets for this goal are based on trend reversal and not on base year value, hence it can be said that India is on track to achieving this goal, since HIV, malaria and tuberculosis prevalence have been declining.

India has made significant strides in reducing the prevalence of HIV and AIDS across different types of high risk categories. Eighty-six percent of transmissions of HIV and AIDS in India are caused by sexual activity. Much of this decline can be attributed to greater awareness and increasing condom use. Adult prevalence has come down from 0.45 percent in 2002 to 0.36 in 2009.

Malaria has consistently come down from 2.12 per thousand in 2001 to 0.72 per thousand in 2013, but slightly increased to 0.88 in 2014 (Provisional). The number of confirmed deaths due to malaria in 2013 was 440 and in 2014 (P), 578 malaria deaths have been registered.

India accounts for one-fifth of the global incidence of tuberculosis (TB), but India has made progress in halting its prevalence. Treatment success rates have remained steady and tuberculosis prevalence per lakh population has reduced from 465 in year 1990 to 211 in 2013. TB incidence per 100,000 population has also reduced from 216 in year 1990 to 171 in 2013.

Goal 7: Ensure Environmental Sustainability

India has made some progress and is on track towards achieving the Seventh Millennium Development Goal of ensuring environmental sustainability. Forest cover has increased to 21.23 percent - an increase of 5871 sq. km, and protected areas cover to about 4.83 percent of the country's total land area. Reducing the energy intensity of GDP growth through higher energy efficiency will be the key to achieving energy security.

India is on-track for achieving the MDG target for sustainable access to safe drinking water. The overall proportion of households having access to improved water sources increased from 68.2 percent in 1992-93 to 90.6 percent in 2011-12. However, India, which is one of the most densely populated countries in the world, has not recorded similar progress in improving sanitation facilities over the last decade. Therefore, progress is slow for the sanitation coverage indicator.

Goal 8: Develop a Global Partnership for Development

With 946.4 million telephone connections, including 918.72 million wireless ones, the Indian telecom network, as of 2014 is the second largest network in the world after China. Out of this, 383.97 million telephone connections are in rural areas and 562.43 million are in urban areas.

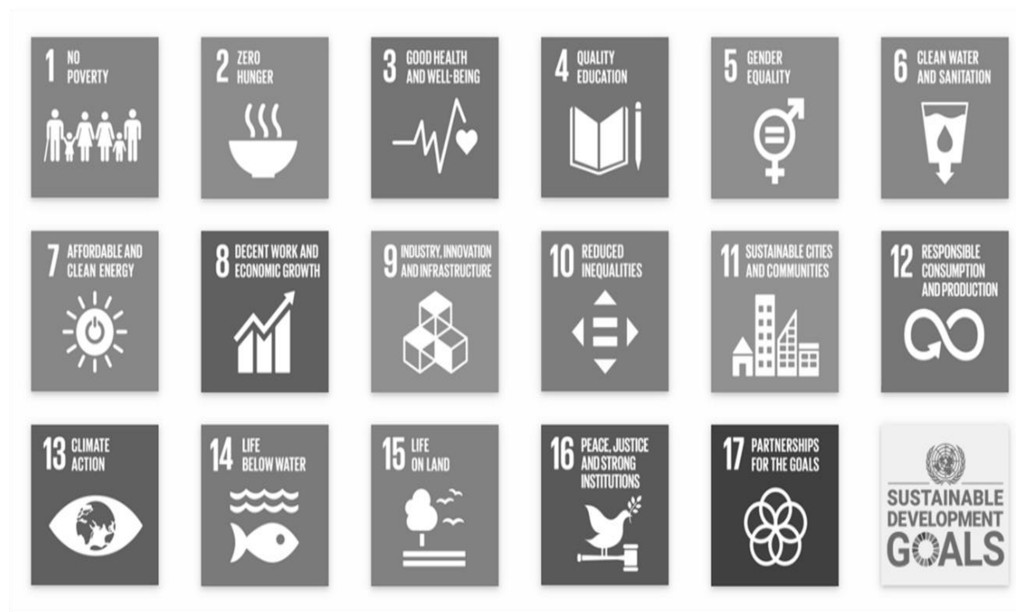
The huge leap in the telecom sector along with the advances in the IT sector have led to a massive expansion in the Internet subscriber base. Total number of Internet subscribers has increased from 198.39 million in 2013 to 259.14 million in 2014, with an annual growth of 60%. Presently, wired internet subscribers are 18.58 million and wireless internet subscribers are 240.60 million.

As part of the globalization process and integration with the global economy, India has emerged as one of the major development partners for fostering techno-economic and intellectual assistance to various developed and developing countries across the world. The Indian ICT industry, in particular, the IT software and services and ITES sectors have managed to catch up with the global leaders. As a part of its development partnership activities, India has helped developing countries through technical assistance, capacity-building support, economic assistance, and provided market access to least developed countries. India's development assistance at US$1.4 billion a year in nominal terms is significant for its level of development and can usefully complement the conventional ODA from developed countries.

2.4 Sustainable Development Goals

The Sustainable Development Goals (SDGs), also known as the Global Goals, were adopted by all United Nations Member States in 2015 as a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity by 2030.

Through the pledge to Leave No One Behind, countries have committed to fast-track progress for those furthest behind first.



Sustainable Development Goals Index of India

India's NITI Aayog have developed its own Index in 2018 with 62 priority indicators. It is a baseline index and therefore does not includes time series data.

No Poverty

India is implementing a comprehensive development strategy to end poverty in all its forms, through accelerated economic growth and broader social safety nets. India has set ambitious targets for poverty reduction, defined not only in terms of monetary threshold of poverty, but also of other factors pertaining to well-being, such as access to nutrition, health care facilities, drinking water and sanitation, education, affordable housing, electricity, clean cooking fuel, and roads and utilities, apart from targeted programmes for digital and financial inclusion.

Universalizing primary healthcare is strengthened with the initiation of Pradhan Mantri Jan Arogya Yojana (PMJAY) programme. The complementing component under the programme, Ayushman Bharat, covers 500 million beneficiaries from over 100 million poor and vulnerable families with health insurance coverage up to INR 500,000 (USD 6,666.7) per family per year for secondary and tertiary institutional care. By May 2020, more than 10 million hospital treatments worth nearly INR 134 billion (USD 1.8 billion) have been provided under the scheme. Over 21,000 public and private hospitals have been empaneled across the country to provide inpatient services to the beneficiaries.

Access to safe housing is a critical part of essential services, which is ensured under the initiative 'Housing for All by 2022'. The economically disadvantaged households are provided with financial assistance for constructing houses equipped with basic amenities. Under the credit-linked subsidy scheme, women get special interest rates and benefits. The number of houses completed in a year under the rural component of the programme has increased by about four times from 1.2 million in 2014-15 to 4.7 million in 2018-19. Under the urban component, against the assessed demand of 11.2 million, 10.3 million houses were sanctioned, 6.1 million grounded for construction and 3.2 million delivered as on 1st January, 2020.

Agriculture provides livelihoods to 650 million people or 59 per cent of Indian households and is a key contributor to growth, job creation, as well as poverty reduction. Therefore, there has been a comprehensive array of measures to improve agricultural productivity while simultaneously seeking to double farmers' income by 2022. Interventions include improving crop insurance through Pradhan Mantri Fasal Bima Yojana (Prime Minister's Crop Insurance scheme), increasing

irrigation efficiency through the Pradhan Mantri Krishi Sinchayee Yojana (Prime Minister's Irrigation Scheme), strengthening agricultural marketing, building up farmer producer organisations for all-round promotion of farm entrepreneurship etc.

Zero Hunger

Eradicating hunger and all forms of malnutrition, and increasing agricultural productivity are the prerequisites for lifting millions from poverty, deprivation and underdevelopment. Under-nutrition is the prime risk factor in over 40 per cent of under-five child deaths in India. Food security is influenced by a number of factors, including those that determine food availability — domestic food production and the capacity to import food, as well as determinants of food access, utilisation and vulnerability. Access to food is determined by purchasing power of households, access to government programmes and gender inequality. India is amongst the world's largest producers of wheat, rice, sugarcane, milk, pulses, fruits and vegetables. Yet, improving access, utilisation and reducing vulnerability remain a challenge. Vulnerability to shocks and disasters too influence food security.

Despite serious challenges, India has made significant progress in improving food and nutrition security. With nearly a six-fold increase in food grain production from 50 million tons in 1950- 51 to more than 292 million tons in 2019-20, India has done well to expand food production and build stocks of food grains. Access to subsidized food has been made an entitlement and the public distribution system enables access to basic food across the country. Given the fact that 70 per cent of rural Indian households and 59 per cent of India's workforce are dependent on agriculture, the Government has prioritized strengthening agriculture through measures to improve irrigation and agri-marketing infrastructure, reduce risks through public procurement and crop insurance, and improve productivity through better yielding varieties.

The main steps taken to eradicate hunger are:

- The implementation of the revamped Public Distribution System under the National Food Security Act (NFSA), 2013, which moved from welfare to a rights-based approach, with a coverage of around 813 million people, is a paradigm shift in the approach towards the issue of food security at the household level, for almost two-thirds of India's population.
- Under the Antyodaya Anna Yojana (AAY), 25 million families from economically weaker sections are entitled to 35 kg of food grains per household per month while the remaining 'priority category' households get 5 kg of food grains per person per month.
- India accords high priority to the issue of malnutrition and implements several schemes and programmes to address the same, such as Anganwadi Services, Pradhan Mantri Matru Vandana Yojana (PMMVY) and the Scheme for Adolescent Girls (SAG) under the umbrella Integrated Child Development Services Scheme (ICDS) to address the problem of malnutrition among women and children in the age group 0-6 years.

Good Health and Well Being

India's focus primarily has been on universalising preventive healthcare, ensuring primary healthcare affordability and ramping up modern medical infrastructure. Special interventions have been rolled out for improving the health status of women and children, and for preventing communicable and non-communicable diseases.

- The launch of the world's largest health protection programme, Ayushman Bharat and its two components, facilitate inclusive health care to at-risk communities. Health and Wellness Centres (HWC) provide comprehensive primary health care (1,50,000 HWCs are planned to be set up by 2022, of which 39,039 are already functional).
- Pradhan Mantri Jan Aarogya Yojana provides health cover to 100 million vulnerable families up to INR 500,000 (USD 6,666.7) per family per year for secondary and tertiary hospitalization.

- With a significant increase in access to State supported healthcare, the out of pocket expenditure (OoPE) as a percentage of total health expenditure has declined from 64.2 per cent in 2013-14 to 58.7 per cent in 2016-17.
- The Pradhan Mantri Jan Aushadhi Pariyojana, under which quality medicine is supplied at affordable prices, has played a big role in reducing the OoPE of patients.
- India has a doctor-population ratio of 1:1456, against the WHO benchmark of 1:1000. To address the challenge of shortage of doctors, India has embarked on an ambitious programme for upgrading health infrastructure - from district hospitals to medical colleges.
- India has reduced Maternal Mortality Ratio (MMR) by 6.15 per cent - from 130 in 2014-16 to 122 in 2015-17, which puts it on track to achieve an MMR of less than 70 by 2030.
- The implementation of the Reproductive, Maternal, Newborn, Child and Adolescent Health (RMNCH+A) strategy, with interventions across the life stages of women and children, and focus on addressing inequitable healthcare delivery for groups in situations of vulnerability, has had a profound impact on the maternal health situation.
- The National Vector Borne Disease Control Programme (NVBDCP) leads India's fight against communicable diseases such as polio, malaria, TB and lymphatic filariasis.

Quality Education

India has seen remarkable improvement in the number of schools, enrolment and retention of children in primary and secondary education and gender parity in access to education. With such strides in the growth of physical infrastructure and enrolment rates, the focus has moved to improving the educational outcomes, which continues to remain a challenging area in the public education sector.

- The National Early Childhood Care and Education Policy, effective since 2013, details out a comprehensive approach for ensuring child survival, growth and development with focus on care and early learning for every child.
- The Integrated Child Development Services (ICDS) Scheme is an omnibus programme covering all aspects of early childhood care, education and development in India. It caters to children aged less than six years through a network of 1.38 million Anganwadi Centers (AWCs) across the country.
- India had made free and compulsory education up to the age of 14 years a fundamental right of citizens and detailed it in the Right of Children to Free and Compulsory Education (RTE) Act, 2009.
- Given the importance of digitalisation in the education system, internet access in schools is fast expanding: more than 80 per cent of the teachers have been formally trained.
- School infrastructure is continuously upgraded through provision of electricity, drinking water and separate toilets.
- Access to electricity for schools increased from 60.01 per cent in 2014-15 to 76.71 per cent in 2018-19; elementary schools with separate toilets for girls increased from 87.16 per cent in 2013-14 to 98.38 per cent in 2017-18.
- India has 993 universities, 39,931 colleges and 10,725 stand-alone institutions, with the private sector accounting for 38.7 per cent of universities and over 75 per cent of the other two.

- Under the Skill India mission and the Pradhan Mantri Kaushal Vikas Yojana (PMKVY), the youth are given skill training to inculcate industry relevant skills to secure a better livelihood. Under PMKVY, 8.7 million candidates have been trained till date.

Gender Equality

The principles of gender equality and justice are embedded in the Constitution of India. Since its initial days as an independent nation state, India has taken bold steps to further gender equality. For instance, India adopted universal and equal suffrage in 1947, well before many world nations, some in advanced stages of development. The various policies, legislation, programmes, and schemes focused on gender equality aim to ensure that women and girls are not excluded from India's growth and prosperity and are able to benefit from and contribute to it. India's focus during the era of SDGs is to carefully look back at the host of initiatives, analyze their performance and achievements, undertake midcourse correction, set new targets to address new and emerging challenges, and meet the aspirations of all generations of women and girls.

- Of the 380 million accounts opened so far under PMJDY, 54 per cent were owned by women. In 2017, women's access to bank accounts rose to 77 per cent from 43 per cent in 2014 and the gender gap slumped to 6.4 per cent from 19.8 per cent during the same period.
- Representation of women in the lower house of the national parliament increased from 11.4 per cent in 2014 to 14.4 per cent in 2019. On the other hand, women's turnout for voting is rapidly and consistently increasing. The 2014 general elections saw female voter turn out rising substantially to 65.5 per cent from 55.82 per cent in 2009, and the gender gap stood at 1.8 percentage points.
- Sex ratio has dropped from 898 in 2014-16 to 896 in 2015-17. The Beti Bachao Beti Padhao (Save the Girl Child, Enable her Education) scheme aims to reverse this trend, by awareness generation mainly through country-wide campaigns.
- The POSHAN Abhiyan (National Nutrition Mission), targets to reduce the level of stunting, under-nutrition, anaemia and low birth weight among babies by reducing malnutrition/under-nutrition, anaemia among young children, adolescent girls, pregnant women and lactating mothers.
- The Maternity Benefit Programme, Pradhan Mantri Matru Vandana Yojana, was initiated in 2016 under the umbrella ICDS scheme and aims to provide partial compensation for the wage loss in terms of cash incentives.

Clean Water and Sanitation

India is home to more than 17 per cent of the world's population, which depends on 4 per cent of the planet's freshwater resources. By 2030 water demand in the country is estimated to be twice the available water supply. On the sanitation front, India had been fighting the battle against open defecation for decades. In 2014, less than half of Indian households had access to sanitation facilities and only 30 per cent of the wastewater and sewage originating in urban areas were treated. Until five years back, an estimated 0.4 million children under five years of age succumbed to water-borne diseases annually. Since 2014, India has been implementing a well-targeted and time bound strategy to transform the state of sanitation in the country. While significant progress has been achieved in recent years, this is a continuous endeavor.

A new and unified ministry – the Ministry of Jal Shakti, has been constituted to ensure effective water governance and comprehensively address water management challenges. As of July 2019, as many as 81.02 per cent rural habitations have been saturated with access to 40 litres of drinking water per capita per day (LPCD) and another 15.71 per cent with partial access. About 96 per cent of households have access to an improved source of drinking water. The country aims to supply every rural household with piped water at the rate of 55 LPCD by 2024 under the recently launched Jal Jeevan Mission (Water as Life Mission). This flagship programme aims to reduce the travails of rural women of travelling long distances for water

Affordable and Clean Energy

With the implementation of a household-focused programme since 2017, the Pradhan Mantri Sahaj Bijli Har Ghar Yojana - Saubhagya (which translates to: easy access to power for every house – a good fortune), nearly all households in all of India's 603,175 villages have been electrified. The next milestone is to ensure reliable and round the-clock power supply to all households in the most affordable manner. Structural reforms have been effectively implemented in which supply codes and performance standards are strictly enforced, and regulation and financial restructuring of power distribution companies are effectively put in place. With supply-side challenges largely resolved, and new capacities, especially based on grid-integrated renewable energy sources, including solar rooftops, being added to the system, achievement of this goal does not appear far-off.

The Pradhan Mantri Ujjwala Yojana was launched as a flagship programme in 2015 to combat the dependence on biomass for cooking, improve women's health and empower them with asset ownership. The program has already achieved its target of enabling 80 million households to access LPG for cooking in September 2019, well ahead of time.

Decent Work and Economic Growth

The making of a Sampanna and Samriddha Bharat, a prosperous and vibrant India, requires accelerated and consistent economic growth, which is not the end but the means to achieving higher levels of development. Sustained high growth is India's principal strategy to create gainful employment, eliminate poverty, and improve prosperity and well-being. India is one of the fastest growing emerging market economies in the present scenario. From 2014-15 to 2019-20, in real terms, India's economy grew at a CAGR of 7.01 per cent. The growth in real GDP during 2019-20 is estimated at 5.0 per cent as compared to the growth rate of 6.8 per cent in 2018-19. The growth rate in Per Capita Income (PCI) is estimated at 4.3 per cent during 2019-20, as against 5.6 per cent in the previous year. From the 2018-19 GDP of USD 2.72 trillion, in current terms, India strives to become a USD 5 trillion economy by 2025 with an inclusive and sustainable growth trajectory.

The Micro Units Development and Refinance Agency (MUDRA) scheme provides financial support to the small and micro-enterprise sector up to INR 1 million (USD 13.3 thousand). Launched in 2015, it aims to ease credit constraints by extending institutional finance to such small business entities. Loans amounting to more than INR 11.8 trillion (USD 157.3 billion) have already been disbursed under this programme. The Micro Units Development and Refinance Agency (MUDRA) scheme provides financial support to the small and micro-enterprise sector up to INR 1 million (USD 13.3 thousand). Launched in 2015, it aims to ease credit constraints by extending institutional finance to such small business entities. Loans amounting to more than INR 11.8 trillion (USD 157.3 billion) have already been disbursed under this programme.

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Industry, Innovation and Infrastructure

Improvement in a range of indicators capture the progress achieved by India's industry in the recent years. Investments into the economy have been proliferating. During 2019-20 (up to September 2019), the total FDI Equity inflows were USD 26.10 billion as compared to USD 22.66 billion during 2018-19 (up to September 2018). The rate of growth of Gross Capital Formation (GCF) in industry registered a sharp rise from (-)0.7 per cent in 2016-17 to 7.6 per cent in 2017-18, showing upward momentum of investments in the sector. Such sharp rise in FDI, which grew to USD 284 billion during 2014-19, combined with a young population, and burgeoning innovation and business ecosystem makes for a robust engine of economic progress. Further, credit usage by the industry has been showing positive signs. Growth in gross bank credit flow to the industrial sector, on a year-on-year basis, rose to 2.7 per cent in September 2019 as compared to 2.3 per cent in September 2018. A host of such measures have resulted in significantly improving the business ecosystem in India.

Reduced Inequalities

India is firmly committed to championing social, economic and political equality through legislations and well-designed multi-sectoral interventions. The Indian Constitution and the wide range of existing laws and statutes provide a sound armory to reduce inequality in its various

forms and meet the challenges with respect to different targets associated with Goal 10. The Right to Free and Compulsory Education (RTE) Act, 2002 seeks to ensure equality of access to education, one of the key determinants of human development, by entitling all children aged 6 to 14 years the fundamental right to education. The Samagra Shiksha programme integrates all aspects of education from pre-primary to higher secondary levels and seeks to materialise all children's right to quality education. There has been significant improvement in enrolment and retention at elementary and secondary levels. Gross Enrolment Ratio currently stands at 91.6 and 79.6 per cent, for elementary and secondary levels, respectively. Dropout rates for the same levels have reduced to 2.72 per cent and 9.74 per cent, respectively, in 2018-19. Gender disparity has appreciably abated, with Gender Parity Index rising to 1.06 at elementary and 1.04 at the secondary level. Targeted programmes for social groups in vulnerable situations have been designed and implemented in the sectors of education, health, livelihoods, skills, entrepreneurship and financial inclusion among others. Beti Bachao Beti Padhao, Support to Training and Employment Programme for Women (STEP) and Deen Dayal Rehabilitation Scheme (DDRS) for persons with disabilities are some of the initiatives in this category.

Sustainable Cities and Communities

The Government of India through its various schemes, missions, programmes and initiatives that are in tune with SDG 11 promotes inclusive and sustainable urbanisation, as well as aims to develop capacities for participatory, integrated and sustainable human settlement planning and management. Under the Atal Mission for Rejuvenation and Urban Transformation (AMRUT), in 500 cities including all those with a population over 100,000, basic civic amenities such as water supply, sewerage and urban transport are provided to all, with a focus on the economically disadvantaged. Proper waste management is an essential criterion for sustainable cities. As of 2019-20, 96 per cent wards have 100 per cent door to door waste collection as compared to 41 per cent in 2015-16. Waste processing has significantly increased from 17.97 per cent in 2015-16 to 60 per cent in 2019-20. India has a comprehensive Smart Cities Mission (SCM), which has identified 100 cities across the country for focused development. The strategic components of area-based development in the Smart Cities Mission are city improvement (retrofitting), city renewal (redevelopment) and city extension (greenfield development), plus a pan-city initiative in which Smart Solutions are applied covering larger parts of the city. Since the launch of the Mission, 5,151 projects worth more than INR 2 trillion (USD 26.7 billion) are at various stages of implementation.

To ensure adequate, safe and affordable housing and basic services for all and upgrade of slums by 2022, India has launched the Pradhan Mantri Awas Yojana (PMAY) for urban households. A comprehensive National Policy on Disaster Management (2009) puts in place a proactive approach to disaster resilience driven by strategies for prevention, mitigation and preparedness. India launched the Energy Conservation Building Code (ECBC) in 2017, which aims at reducing energy consumption and promote low-carbon growth.

Responsible Consumption and Production

At the heart of sustainable consumption and production lie resource use efficiency, green employment and work force, sustainable infrastructure, equitable access to basic services and better quality of life. By setting the targets to reduce the emissions intensity of GDP by 20 to 25 per cent from its 2005 levels by 2020 and by 33 to 35 per cent by 2030, India has reiterated its commitment to SDG 12. India supports the 10-Year Framework of Programmes on Sustainable Consumption and Production (10YFP), which is a global commitment to accelerate the shift towards sustainable consumption and production. The country is particularly active in 10YFP programme areas, such as, sustainable buildings and construction, sustainable tourism, sustainable food systems, consumer information, and sustainable lifestyles and education. India has emerged as the world's second-largest consumer of materials. The demand for consumption of materials has gone up over the years and reached 7.4 billion tonnes in 2017, with resource extraction per unit area rising to the level of 1,579 tonnes/acre. Augmenting resource efficiency and increasing the use of secondary raw materials is an integral part of the strategy to work towards decoupling growth from adverse environmental impacts. Resource efficiency fetches considerable cost benefits by downsizing extraction of virgin raw materials, import dependency, and energy and process materials. India strives to control resource extraction rate and improve material productivity. There is an effort to reduce import dependency for the majority of the 'most critical' materials, such as, cobalt, copper and lithium, which are extensively used in the high-end technology industry. Multistakeholder efforts are targeted at increasing the extent of recycling in the country, which is currently in the range of 20 to 25 per cent. Laying down policy in this direction is crucial. NITI Aayog initiated the process with the formulation of the Draft National Resource Efficiency Policy (NREP). The NREP envisions an environmentally sustainable future with resource-secure and equitable economic

growth as well as bio-diverse ecosystems with a focus on: a) sustainable consumption of virgin resources b) high material productivity with emphasis on efficient circular approaches c) minimisation of waste and d) creation of employment opportunities and business models conducive to environment protection and conservation.

Climate Action

India's unique geography and geology combined with vast climatic diversity, make it vulnerable to a range of climate-induced natural disasters. The threats from global warming to India's climate stability are more complex and severe as compared to many other countries. According to the special report of the Intergovernmental Panel on Climate Change (IPCC), agricultural economies like India would suffer the most from the repercussions of global warming in terms of intense heatwaves, floods and droughts, water stress and reduced food output. India recognises its challenges and pursues a multifaceted strategy to address them and achieve the ambitious targets of the 2030 Agenda. It also values its role as a responsible global actor while taking forward necessary interventions at national, subnational and local levels. India is ranked among the top ten countries in the Climate Change Performance Index 2020 on account of low levels of per capita emissions and energy use, and 'well-below-2°C' renewable energy targets. Taking forward its Nationally Determined Contributions (NDCs) under the UNFCCC, India's climate action strategies emphasise clean and efficient energy systems, resilient urban infrastructure, and planned eco-restoration among others. India adopted the National Action Plan on Climate Change (NAPCC) in 2008, which embodied India's vision of ecologically sustainable development and integrated climate action strategies in several sectors, such as energy, industry, agriculture, water, forests, urban spaces and the fragile mountain ecosystems. The NAPCC comprises eight National Missions, which inter alia, aim to promote solar energy; improve energy efficiency of domestic, commercial and industrial sectors; encourage sustainable urban planning; ensure sustainable water supply; promote sustainable, remunerative and climate-resilient agriculture; address climate change impacts in the Himalayas; manage forests from the perspectives of climate change; and create a comprehensive knowledge system that informs and supports climate change action in India. At the subnational level, as many as 32 States/UTs have developed their State Action Plan for Climate Change (SAPCC) in line with the NAPCC.

Life below Water

India is the 16th largest maritime country and the second largest producer of fish in the world. Close to 95 per cent of India's trade by volume and 70 per cent in value terms moves through its maritime channels. Located along most major shipping highways and with a coastline of 7,517 km and 2.02 million sq. km of Exclusive Economic Zone (EEZ), India has a substantial blue economy. Indian marine fisheries have an annual harvestable potential of 4.414 million metric tonnes and provide livelihood to about four million people. Marine fisheries contribute INR 650 billion (about USD 8.6 billion) to the economy every year in terms of value. India's share in global fish production, both marine and riverine, amounts to 6.3 per cent of the global fish production. The marine sector contributes to 1.1 per cent of the GDP and 6.58 per cent of the agricultural GDP.

Life of Land

As one of 17 mega-biodiverse countries in the world, India has only 2.4 per cent of the earth's land area. The country hosts around eight per cent of the world's biodiversity, which includes many rare species. India has made sustainable management of the terrain ecosystem a priority, while working steadfastly towards protecting, restoring and promoting terrestrial ecosystems, including restoration of 26 million hectares (Mha) of degraded land by 2030. In the course of the last decade, around 3 Mha of forest and tree cover has been added, which has enhanced the combined forest and tree cover to 24.56 per cent (21.67 per cent forest cover and 2.89 per cent tree cover) of the total geographical area of the country. The Scheduled Tribes and other Traditional Forest Dwellers (Recognition of Forest Rights) Act, 2006 recognises the rights to hold and live in the forest land under individual or common occupation for habitation or self-cultivation for livelihood.

India has a robust system of legislations for the protection and conservation of wetlands. For instance the Forest Act, 1972; the Forest (Conservation) Act, 1980; the Wildlife (Protection) Act, 1972; the Water (Prevention and Control of Pollution) Act, 1974; the Water (Prevention and Control of Pollution) Cess Act, 1977; and the Umbrella provisions of the Environment (Protection) Act, 1986. The Ministry of Environment, Forests and Climate Change (MoEFCC) has notified new Wetland (Conservation and Management) Rules 2017, to prohibit a range of activities in wetlands, such as setting up and expansion of industries, waste dumping and discharge of effluents. Detailed guidelines have been circulated to States and UTs for implementation of the Wetlands Rules.

Peace, Justice and Strong Institutions

India, the world's largest democracy, enshrines the principles of justice, liberty and equality in its Constitution. There is a strong framework of institutions at the national, state and local levels that are transparent, accountable and effective. To ensure that citizens not only have access to fundamental rights but also can effectively exercise them, various national initiatives have been introduced in the form of legislation, policies, schemes and programmes. These help in upholding justice and ensuring accountability and transparency at local, subnational and national levels. In addressing Goal 16, some of the key highlights in the Indian polity are enumerated here.

The overall crime rate per lakh population has come down from 388.6 in 2017 to 383.5 in 2018, though there has been an increase in the rate of crime under some heads. The registration of cases has increased by 1.3 per cent during the same period. If one takes the period between 2015 and 2018, the crime rate per lakh population has dropped by 34 per cent. Incidence of murder and culpable homicide dropped by 3 per cent between 2016 and 2018. India has long ratified the UN Convention on the Rights of the Child (CRC). The country has several policies and laws addressing various categories and age-groups of children. While the National Policy for Children lays down priorities across broad areas of survival, health and nutrition, education and development, and protection and participation; the laws deal with specific issues pertaining to the rights of children, such as, provision of care and protection, right to education, prevention of violence and abuse, child labour and trafficking, and sexual exploitation.

Partnerships for the Goals

In the last decade, India's role in global development cooperation and partnership has undergone notable transformation. India has actively contributed to crafting of policy coalitions such as ISA (International Solar Alliance), CDRI (Coalition for Disaster Resilience Infrastructure), BRICS (Brazil, Russia, India, China, South Africa) and its New Development Bank, IBSA (India, Brazil, South Africa), India-Africa Forum Summit, India-PSIDS, India-CARICOM, the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) etc., which offer a forum and platform for countries of the Global South as well as the North for cooperation on multiple fronts. Working towards global partnership has, therefore, assumed considerable importance as a policy imperative for the country. India has improved its tax-to-GDP ratio in the last six years, to 17-17.5 per cent (after including the Centre and States' tax revenue). India has been undertaking significant tax reforms as well as measures to ensure compliance and to improve taxation including that of the resident and non-resident taxpayers. Over the last few years, the Government of India and many State Governments have implemented policy reforms and process simplification with a view to improving predictability, fairness and automation. This has helped bring about India's surge to the top 100 in the World Bank's Ease of Doing Business (EoDB) rankings in recent years. The Goods and Services Tax (GST) reform was implemented to ease the complex indirect tax regime. It has replaced all indirect taxes levied on goods and services by the Central and State Governments. India has improved its tax-to-GDP ratio in the last six years, to 17-17.5 per cent (after including the Centre and States' tax revenue). India has been undertaking significant tax reforms as well as measures to ensure compliance and to improve taxation including that of the resident and non-resident taxpayers. Over the last few years, the Government of India and many State Governments have implemented policy reforms and process simplification with a view to improving predictability, fairness and automation. This has helped bring about India's surge to the top 100 in the World Bank's Ease of Doing Business (EoDB) rankings in recent years. The Goods and Services Tax (GST) reform was implemented to ease the complex indirect tax regime. It has replaced all indirect taxes levied on goods and services by the Central and State Governments.

Summary

The development of a country depends on the economic policies adopted by the government and also the allocation of the resources. There are countries and areas which have bountiful of resources but they lack behind in terms of development. There are different index and goals to measure the development of a country. One of them is the Human Development Index. The Human Development Index is a measure of the development of human resources in a country using education, per capita income and health. The rank of a country in terms of HDI has implication on the investment flowing in the country. The Millennium Development Goals (MDG) and Sustainable Development Goals (SDG) are two steps of the United Nations to assess the progress of the countries. Eight MDGs were given with a target to be achieved by 2015. Sustainable Development

Goals (SDGs) have 17 goals that are to be achieved by 2030. Niti Aayog publishes the achievement of the goals in context to India.

Keywords

Developing Country: A developing country is a sovereign state with a less developed industrial base and a low Human Development Index relative to other countries.

Life Expectancy: Life expectancy, estimate of the average number of additional years that a person of a given age can expect to live. The most common measure of life expectancy is life expectancy at birth.

Human Development Index: The Human Development Index (HDI) is a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and have a decent standard of living. The HDI is the geometric mean of normalized indices for each of the three dimensions.

Millennium Development Goals: The United Nations Millennium Development Goals (MDGs) are 8 goals that UN Member States have agreed to try to achieve by the year 2015.

Sustainable Development Goals: The Sustainable Development Goals (SDGs), also known as the Global Goals, were adopted by the United Nations in 2015 as a universal call to action to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity.

Self Assessment

1. If the life expectancy is 20, then its value is normalized to
   - A. 0
   - B. 1
   - C. Varies from country to country
   - D. None of the above

2. Which of the following is the metric for evaluating the standard of living?
   - A. GNI per capita
   - B. Mean years of schooling
   - C. Expected years of schooling
   - D. Life expectancy at birth

3. To measure HDI, we take the …….. of the components
   - A. Standard deviation
   - B. Coefficient of variation
   - C. Geometric Mean
   - D. Harmonic Mean

4. The world bank classifies the nations into how many categories.
   - A. One
   - B. Two
   - C. Three
   - D. Four

5. The classification of the countries is based on the per capita Gross National Income (GNI) in current USD using the……… method exchange rates of the previous year.
   - A. Atlas method

B. PPP method
C. Fixed method
D. Floating method

6. In 2000, …. nations made a promise to free people from extreme poverty and multiple deprivations.
A. 175
B. 196
C. 189
D. 211

7. The due date for achieving the Millennium Development Goals was
A. 2000
B. 2011
C. 2015
D. 2018

8. Environment sustainability is the …………goal in the MDG.
A. Eighth
B. Seventh
C. Sixth
D. Fifth

9. What is the pledge of Sustainable Development Goals?
A. Take everyone along
B. Leave no one behind
C. Equality for all
D. Free people of poverty

10. Does India have its own index for the SDG?
A. True
B. False

11. Which is the 9th SDG?
A. Poverty
B. Hunger
C. Industry, Innovation and Infrastructure
D. Gender Equality

12. What does the JAM trinity stand for?
A. Jansadharam Aam Mission
B. JDY Adhar and Mobile
C. Joint Admission Test
D. None of the above

13. By which year the SDGs must be attained?
A. 2015

B. 2022

C. 2025

D. 2030

14. What is the rank of India in terms of Human Development?

    A. 130

    B. 131

    C. 132

    D. 133

15. As compared to 2019, the score of India in terms of HDI has

    A. Improved

    B. Deteriorated

    C. Maintained status quo

    D. None of the above

Answers for Self Assessment

1.	A	2.	A	3.	C	4.	D	5.	A
6.	C	7.	C	8.	B	9.	B	10.	A
11.	C	12.	B	13.	D	14.	B	15.	B

Review Questions

1. Is the Human Development Index a better parameter to judge the development of the country? Substantiate your arguments.
2. Does the rank of a country in the HDI has implications on the foreign investments in the country?
3. Why is there a need for Sustainable Development Goals?
4. Give an overview about the Millennium Development Goals.
5. What are the good practices regarding the Sustainable Development Goals in India?

Further Readings

Indian Economy Performance and Policies By Uma Kapila, Academic Foundation

Web Links

https://sdgs.un.org/goals

Unit 03: Cooperative Federalism

CONTENTS

Objectives

Introduction

3.1 Planning In India

3.2 Outline of Various Five-Year Plans

3.3 NITI Aayog

3.4 Economic Crisis of 1991

Summary

Keywords

Self Assessment

Answers for Self Assessment

Review Questions

Further Readings

Objectives

Describing the evolution of Planning in India

Discussing the various Plans

Evaluating the formation of Niti Aayog

Analysing the macroeconomic crisis of 1991 and the structural reforms

Introduction

Federalism is a method of dividing powers between 'general' and 'regional' governments in such a way that the two parts of the system are co-ordinate and independent. This is the essence of federalism, though it is necessary to bear in mind that the degree of autonomy enjoyed by the States makes no difference to the federal principle. In India, the Union and the States certainly have their own exclusive spheres of legislative competence. But many commentators on the Constitution feel that it provides for a degree of central emphasis which destroys the significance of State autonomy. Professor Where was somewhat uncertain on this point and very conveniently invoked the expression 'quasi-federal' to describe the system provided by the Indian Constitution. By doing this he paved the way for a great deal of confusion. The phrase 'quasi-federal' is delightfully vague and does not indicate the degree of departure from orthodox federalism as known to the framers of the American and Australian Constitutions. As a concept in Constitutional law, it is altogether useless.

The understanding of cooperative federalism depends on the models that were adopted by India. The country went for a planned development model which it adopted from USSR. The Planning Commission was established which undertook the responsibility of framing the Five-Year Plans for the country. In 2014, when the current government came to power for the first time, the Planning Commission was replaced by Niti Aayog, an agency which limited itself to providing counsel to the government on various economic issues.

3.1 Planning In India

Evolution of Planning

Though the planned economic development in India began in 1951 with the inception of First Five Year Plan, theoretical efforts had begun much earlier, even prior to the independence. Setting up of

National Planning Committee by Indian National Congress in 1938, The Bombay Plan & Gandhian Plan in 1944, Peoples Plan in 1945 (by post war reconstruction Committee of Indian Trade Union), Sarvodaya Plan in 1950 by Jaiprakash Narayan were steps in this direction.

Five-Year Plans (FYPs) are centralized and integrated national economic programs. Joseph Stalin implemented the first FYP in the Soviet Union in the late 1920s. Most communist states and several capitalist countries subsequently have adopted them. China and India both continue to use FYPs, although China renamed its Eleventh FYP, from 2006 to 2010, a guideline (guihua), rather than a plan (jihua), to signify the central government's more hands-off approach to development.

After independence, India launched its First FYP in 1951, under socialist influence of first Prime Minister Jawaharlal Nehru. The process began with setting up of Planning Commission in March 1950 in pursuance of declared objectives of the Government to promote a rapid rise in the standard of living of the people by efficient exploitation of the resources of the country, increasing production and offering opportunities to all for employment in the service of the community. The Planning Commission was charged with the responsibility of making assessment of all resources of the country, augmenting deficient resources, formulating plans for the most effective and balanced utilization of resources and determining priorities.

Planning Commission

The role of the Planning Commission is directly related to the tasks assigned to the government by the Indian Constitution in its Directive Principles, especially those relating to economic and social redevelopment. The Directive Principles of State Policy urge upon the state to secure citizens' right to adequate means of livelihood and control the inequalities in the ownership of wealth and means of production. In this context, the state is required to ensure growth in production, and its equitable distribution among the various sections of society. In this context, the Planning Commission formulates plans for the whole country and also functions as an advisory planning body at the apex level.

The major functions of the Planning Commission, assigned as per the Government of India (Allocation of Business) Rules 1961, are as follows:

1. It makes an assessment of the material, capital and human resources of the country, including technical personnel, and formulation of proposals on the basis of possibilities of augmenting such resources that are found to be deficient.
2. Formulates a plan for effective and balanced utilization of resources in the country.
3. Defines the stages in which the plan should be carried out and proposes the allocation of resources for completion of each stage.
4. Identify the factors, which tend to retard economic development and determine the conditions, which in view of the current social and political situation should be established for the successful execution of the plan.
5. Determines the nature of machinery, that is, necessary for implementation of the Plan.
6. Appraises the progress achieved in the execution of each stage of [he Plan, and recommends the adjustments of policies and measures that such appraisal may show to be necessary.)
7. Makes interim or ancillary recommendations, which appear to be appropriate either for facilitating the discharge of the duties assigned to it or on a consideration of prevailing conditions, current policies, measures, and development programmes or on an examination of such specific problems as may be referred to it for advice by the Central or State Governments.

Tn addition to the above-mentioned functions, the Planning Commission has been entrusted with responsibility in the following matters.

a) Public Cooperation in National Development.

b) Specific programmes for area development like Hill Area Development Programme;

c) Perspective Planning.

d) Institute of Applied Manpower Research; and

e) Overall Coordination of the Pradhan Mantri Gramodaya Yojana (PMGY).

3.2 Outline of Various Five-Year Plans

First Plan (1951 - 56) Target Growth: 2.1 % Actual Growth 3.6 %

It was based on Harrod-Domar Model. Influx of refugees, severe food shortage & mounting inflation confronted the country at the onset of the first five-year Plan. The Plan Focused on agriculture, price stability, power and transport. It was a successful plan primarily because of good harvests in the last two years of the plan. Objectives of rehabilitation of refugees, food self-sufficiency & control of prices were achieved.

Second Plan (1956 - 61) Target Growth: 4.5% Actual Growth: 4.3%

Simple aggregative Harrod-Domar Growth Model was again used for overall projections and the strategy of resource allocation to broad sectors as agriculture & Industry was based on two & four sector Model prepared by Prof. P C Mahalanobis. (Plan is also called Mahalanobis Plan). Second plan was conceived in an atmosphere of economic stability. It was felt agriculture could be accorded lower priority. The Plan focused on rapid industrialization- heavy & basic industries. Advocated huge imports through foreign loans. The Industrial Policy 1956 was based on establishment of a socialistic pattern of society as the goal of economic policy. Acute shortage of forex led to pruning of development targets , price rise was also seen (about 30%) vis a vis decline in the earlier Plan & the 2nd FYP was only moderately successful.

Third Plan (1961 - 66) |Target Growth: 5.6% Actual Growth: 2.8%

At its conception, it was felt that Indian economy has entered a "take-off stage". Therefore, its aim was to make India a 'self-reliant' and 'self-generating' economy. Based on the experience of first two plans (agricultural production was seen as limiting factor in India's economic development), agriculture was given top priority to support the exports and industry. The Plan was thorough failure in reaching the targets due to unforeseen events - Chinese aggression (1962), Indo-Pak war (1965), severe drought 1965-66. Due to conflicts the approach during the later phase was shifted from development to defense & development.

Three Annual Plans (1966-69) euphemistically described as Plan holiday

Failure of Third Plan that of the devaluation of rupee (to boost exports) along with inflationary recession led to postponement of Fourth FYP. Three Annual Plans were introduced instead. Prevailing crisis in agriculture and serious food shortage necessitated the emphasis on agriculture during the Annual Plans. During these plans a whole new agricultural strategy was implemented. It is involving 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 generated during the Third Plan. It paved the path for the planned growth ahead.

Fourth Plan (1969 - 74) Target Growth: 5.7% Actual Growth: 3.3%

Refusal of supply of essential equipment's and raw materials from the allies during Indo Pak war resulted in twin objectives of "growth with stability "and "progressive achievement of self-reliance " for the Fourth Plan. Main emphasis was on growth rate of agriculture to enable other sectors to move forward. First two years of the plan saw record production. The last three years did not measure up due to poor monsoon. Implementation of Family Planning Programmes were amongst major targets of the Plan. Influx of Bangladeshi refugees before and after 1971 Indo-Pak war was an important issue along with price situation deteriorating to crisis proportions and the plan is considered as big failure.

Fifth Plan (1974-79) Target Growth: 4.4% Actual Growth: 4.8%

The final Draft of fifth plan was prepared and launched by D.P. Dhar in the backdrop of economic crisis arising out of run-away inflation fueled by hike in oil prices and failure of the Govt. takeover of the wholesale trade in wheat. It proposed to achieve two main objectives: 'removal of poverty' (Garibi Hatao) and 'attainment of self-reliance'. Promotion of high rate of growth, better distribution of income and significant growth in the domestic rate of savings were seen as key instruments Due to high inflation, cost calculations for the Plan proved to be completely wrong and the original public sector outlay had to be revised upwards. After promulgation of emergency in

1975, the emphasis shifted to the implementation of Prime Ministers 20 Point Programme. FYP was relegated to the background and when Janta Party came to power in 1978, the Plan was terminated.

Rolling Plan (1978 - 80)

There were 2 Sixth Plans. Janta Govt. put forward a plan for 1978-1983 emphasising on employment, in contrast to Nehru Model which the Govt criticised for concentration of power, widening inequality & for mounting poverty. However, the government lasted for only 2 years. Congress Govt. returned to power in 1980 and launched a different plan aimed at directly attacking on the problem of poverty by creating conditions of an expanding economy.

Sixth Plan (1980 - 85) Target Growth: 5.2% Actual Growth: 5.7%

The Plan focused on Increase in national income, modernization of technology, ensuring continuous decrease in poverty and unemployment through schemes for transferring skills (TRYSEM) and SEETS (IRDP) and providing slack season employment (NREP), controlling population explosion etc. Broadly, the sixth Plan could be taken as a success as most of the target were realized even though during the last year (1984-85) many parts of the country faced severe famine conditions and agricultural output was less than the record output of previous year.

Seventh Plan (1985 - 90) Target Growth: 5.0% Actual Growth: 6.0%

The Plan aimed at accelerating food grain production, increasing employment opportunities & raising productivity with focus on 'food, work & productivity'. The plan was very successful as the economy recorded 6% growth rate against the targeted 5% with the decade of 80's struggling out of the' Hindu Rate of Growth'.

Eighth Plan (1992 - 97) Target Growth 5.6 % Actual Growth 6.8%

The eighth plan was postponed by two years because of political uncertainty at the Centre. Worsening Balance of Payment position, rising debt burden, widening budget deficits, recession in industry and inflation were the key issues during the launch of the plan. The plan undertook drastic policy measures to combat the bad economic situation and to undertake an annual average growth of 5.6% through introduction of fiscal & economic reforms including liberalisation under the Prime Minister ship of Shri P V Narasimha Rao.

Some of the main economic outcomes during eighth plan period were rapid economic growth (highest annual growth rate so far – 6.8 %), high growth of agriculture and allied sector, and manufacturing sector, growth in exports and imports, improvement in trade and current account deficit. High growth rate was achieved even though the share of public sector in total investment had declined considerably to about 34 %.

Ninth Plan (1997- 2002) Target Growth: 6.5% Actual Growth: 5.4%

The Plan prepared under United Front Government focused on "Growth With Social Justice & Equality "Ninth Plan aimed to depend predominantly on the private sector – Indian as well as foreign (FDI) & State was envisaged to increasingly play the role of facilitator & increasingly involve itself with social sector viz education, health etc and infrastructure where private sector participation was likely to be limited. It assigned priority to agriculture & rural development with a view to generate adequate productive employment and eradicate poverty.

Tenth Plan (2002 - 2007) Target Growth 8 %, Actual Growth 7.6 %

Recognizing that economic growth can't be the only objective of national plan, Tenth Plan had set 'monitorable targets' for few key indicators (11) of development besides 8 % growth target. The targets included reduction in gender gaps in literacy and wage rate, reduction in Infant & maternal mortality rates, improvement in literacy, access to potable drinking water cleaning of major polluted rivers, etc. Governance was considered as factor of development & agriculture was declared as prime moving force of the economy. State's role in planning was to be increased with greater involvement of Panchayati Raj Institutions. State wise break up of targets for growth and social development sought to achieve balanced development of all states.

Eleventh Plan (2007 - 2012) Target Growth 9 %, Actual Growth 8%

Eleventh Plan was aimed "Towards Faster & More Inclusive Growth "after UPA rode back to power on the plank of helping Aam Aadmi (common man).

India had emerged as one of the fastest growing economy by the end of the Tenth Plan. The savings and investment rates had increased, industrial sector had responded well to face competition in the global economy and foreign investors were keen to invest in India. But the growth was not

perceived as sufficiently inclusive for many groups, specially SCs, STs & minorities as borne out by data on several dimensions like poverty, malnutrition, mortality, current daily employment etc .

The broad vision for 11th Plan included several interrelated components like rapid growth reducing poverty & creating employment opportunities, access to essential services in health & education, especially for the poor, extension if employment opportunities using National Rural Employment Guarantee Programme, environmental sustainability, reduction of gender inequality etc. Accordingly various targets were laid down like reduction in unemployment(to less than 5 % among educated youth) & headcount ratio of poverty (by 10 %), reduction in dropout rates , gender gap in literacy , infant mortality , total fertility , malnutrition in age group of 0-3 (to half its present level), improvement in sex ratio, forest & tree cover, air quality in major cities, , ensuring electricity connection to all villages & BPL households (by 2009) & reliable power by end of 11th Plan , all weather road connection to habitations with population 1000& above (500 in hilly areas) by 2009, connecting every village by telephone & providing broad band connectivity to all villages by 2012 .

The Eleventh Plan started well with the first year achieving a growth rate of 9.3 per cent, however the growth decelerated to 6.7 per cent rate in 2008-09 following the global financial crisis. The economy recovered substantially to register growth rates of 8.6 per cent and 9.3 per cent in 2009-10 and 2010-11 respectively. However, the second bout of global slowdown in 2011 due to the sovereign debt crisis in Europe coupled with domestic factors such as tight monetary policy and supply side bottlenecks, resulted in deceleration of growth to 6.2 per cent in 2011-12. Consequently, the average annual growth rate of Gross Domestic Product (GDP) achieved during the Eleventh Plan was 8 per cent, which was lower than the target but better than the Tenth Plan achievement. Since the period saw two global crises - one in 2008 and another in 2011 – the 8 per cent growth may be termed as satisfactory. The realized GDP growth rate for the agriculture, industry and services sector during the 11th Plan period is estimated at 3.7 per cent, 7.2 per cent and 9.7 per cent against the growth target of 4 per cent, 10-11 per cent and 9-11 per cent respectively.

The Eleventh Plan set a target of 34.8 per cent for domestic savings and 36.7 per cent for investment after experiencing a rising level of domestic savings as well as investment and especially after emergence of structural break during the Tenth Plan period. However, the domestic savings and investment averaged 33.5 per cent and 36.1 per cent of GDP at market prices respectively in the Eleventh Plan which is below the target but not very far.

Based on the latest estimates of poverty released by the Planning Commission, poverty in the country has declined by 1.5 percentage points per year between 2004-05 and 2009-10. The rate of decline during the period 2004-05 to 2009-10 is twice the rate of decline witnessed during the period 1993-94 to 2004-05. Though the new poverty count based on Tendulkar Formula has been subject of controversy, it is believed by the Committee that whether we use the old method or the new, the decline in percentage of population below poverty line is almost same.

On the fiscal front, the expansionary measures taken by the government to counter the effect fo global slowdown led to increase in key indicators through 2009-10 with some moderation thereafter.

The issue of Price Stability remained resonating for more than half of the Plan period. Inability to pass on burden on costlier imported oil prices might have constrained the supply of investible funds in the government's hand causing the 11th Plan to perform at the levels below its target.

Twelfth Five Year Plan (2012-17)

The Twelfth Plan commenced at a time when the global economy was going through a second financial crisis, precipitated by the sovereign debt problems of the Eurozone which erupted in the last year of the Eleventh Plan. The crisis affected all countries including India. Our growth slowed down to 6.2 percent in 2011-12 and the deceleration continued into the first year of the Twelfth Plan, when the economy is estimated to have grown by only 5 percent. The Twelfth Plan therefore emphasizes that our first priority must be to bring the economy back to rapid growth while ensuring that the growth is both inclusive and sustainable. The broad vision and aspirations which the Twelfth Plan seeks to fulfil are reflected in the subtitle: 'Faster, Sustainable, and More Inclusive Growth'. Inclusiveness is to be achieved through poverty reduction, promoting group equality and regional balance, reducing inequality, empowering people etc. whereas sustainability includes ensuring environmental sustainability, development of human capital through improved health, education, skill development, nutrition, information technology etc. and development of institutional capabilities, infrastructure like power telecommunication, roads, transport etc.

Apart from the global slowdown, the domestic economy has also run up against several internal constraints. Macro-economic imbalances have surfaced following the fiscal expansion undertaken after 2008 to give a fiscal stimulus to the economy. Inflationary pressures have built up. Major investment projects in energy and transport have slowed down because of a variety of implementation problems. Some changes in tax treatment in the 2012–13 have caused uncertainty among investors. These developments have produced a reduction in the rate of investment, and a slowing down of economic growth.

3.3 NITI Aayog

Overview

National Institution for Transforming India, better known as NITI Aayog, was formed via a resolution of the Union Cabinet on 1 January 2015.

NITI Aayog is the premier policy think tank of the Government of India, providing directional and policy inputs. Apart from designing strategic and long-term policies and programmes for the Government of India, NITI Aayog also provides relevant technical advice to the Centre, States, and Union Territories.

The Governing Council of NITI Aayog is chaired by the Hon'ble Prime Minister and comprises Chief Ministers of all the States and Union Territories with legislatures and Lt Governors of other Union Territories. The Governing Council was reconstituted vide a notification dated 19 February 2021 by the Cabinet Secretariat.

The Government of India constituted NITI Aayog to replace the Planning Commission, which had been instituted in 1950. This step was taken to better serve the needs and aspirations of the people. An important evolutionary change, NITI Aayog acts as the quintessential platform of the Government of India to bring the States to act together in national interest, and thereby fosters cooperative federalism.

Objectives

- To evolve a shared vision of national development priorities, sectors and strategies with the active involvement of States.
- To foster cooperative federalism through structured support initiatives and mechanisms with the States on a continuous basis, recognizing that strong States make a strong nation.
- To develop mechanisms to formulate credible plans at the village level and aggregate these progressively at higher levels of government.
- To ensure, on areas that are specifically referred to it, that the interests of national security are incorporated in economic strategy and policy.
- To pay special attention to the sections of our society that may be at risk of not benefiting adequately from economic progress.
- To design strategic and long-term policy and programme frameworks and initiatives, and monitor their progress and their efficacy. The lessons learnt through monitoring and feedback will be used for making innovative improvements, including necessary mid-course corrections.
- To provide advice and encourage partnerships between key stakeholders and national and international like-minded think tanks, as well as educational and policy research institutions.
- To create a knowledge, innovation and entrepreneurial support system through a collaborative community of national and international experts, practitioners and other partners.
- To offer a platform for the resolution of inter-sectoral and inter- departmental issues in order to accelerate the implementation of the development agenda.

- To maintain a state-of-the-art resource centre, be a repository of research on good governance and best practices in sustainable and equitable development as well as help their dissemination to stake-holders.
- To actively monitor and evaluate the implementation of programmes and initiatives, including the identification of the needed resources so as to strengthen the probability of success and scope of delivery.
- To focus on technology upgradation and capacity building for implementation of programmes and initiatives.
- To undertake other activities as may be necessary in order to further the execution of the national development agenda, and the objectives mentioned above.

Features

NITI Aayog is developing itself as a state-of-the-art resource centre with the necessary knowledge and skills that will enable it to act with speed, promote research and innovation, provide strategic policy vision for the government, and deal with contingent issues. It is supported by two attached offices—Atal Innovation Mission (AIM) and Development Monitoring and Evaluation Organisation (DMEO)—and an autonomous body, National Institute of Labour Economics Research and Development (NILERD).

NITI Aayog's entire gamut of activities can be divided into four main heads:

1. Policy and Programme Framework
2. Cooperative Federalism
3. Monitoring and Evaluation
4. Think Tank, and Knowledge and Innovation Hub

The different verticals, cells, attached and autonomous bodies of NITI provide the requisite coordination and support framework needed to carry out its mandate. The list of verticals and cells is given below.

Verticals of NITI Aayog are

Administration	Agriculture and Allied Sectors
Aspirational Districts Programme Cell	Communication and Social-Media
Data Management and Analysis, Frontier Technologies	Economics and Finance Cell
Education	Governance and Research
Governing Council Secretariat and Coordination	Industry I and II
Infrastructure Connectivity	Infrastructure-Energy
Natural Resource and Environment , and Island Development	Project Appraisal and Management Division
Public Private Partnership	Rural Development
Science and Technology	Social Justice and Empowerment, and Voluntary Action Cell
	State Finances and Coordination
Sustainable Development Goals	Water Resources/Pradhan Mantri Krishi Sinchayee Yojana/Land Resources

3.4 Economic Crisis of 1991

In mid-1991, India's exchange rate was subjected to a severe adjustment. This event began with a slide in the value of the rupee leading up to mid-1991. The authorities at the Reserve Bank of India slowed the decline in value by expending international reserves. With reserves nearly depleted, however, the exchange rate was devalued sharply on July 1 and July 3 against major foreign currencies.

India's 1991 crisis provides an interesting case study with certain features that are distinct from popular theoretical models. Although some elements were present, the crisis cannot adequately be described as a first-generation currency crisis model. It also didn't follow the second-generation models, nor the more recent literature that emphasizes financial sector weakness, over lending cycles, and contagion. In addition, despite progress in liberalizing trade and capital flows, India is still relatively closed, and capital inflows have been well below those in other Asian economies. Therefore, India's 1991 crisis contrasts with the 1997 crisis that hit the very open Asian countries.

Rationale of Economic Reforms

Indian economy was highly regulated during the first four decades of economic planning (1950-1990). The five-year plan objectives were focused on development of public sector for setting up heavy and basic industries, self-reliance, import substitution strategies, nationalization and state-interventionist regime. While on one hand it helped in setting up some key industries like SAIL, ONGC, IOC, BHEL, etc., on the other hand it restricted the growth of private sector, private business plans and brought about bureaucracy-led corruption, sick public sector enterprises, deteriorating trade balance, economic and financial crisis in early 1990s. India had to borrow foreign exchange from IMF and comply with the conditionality imposed by it such as stabilization and structural stability programme, reduction of trade barriers, revision of fiscal and monetary policies, active role of market and integration of the Indian economy with the world economy. In a nutshell, the three basic elements of economic reforms were liberalisation, privatization and globalization (also known as LPG strategy) of the Indian economy

Summary

India is a planned economy which adopted the planning model from USSR. The Planning Commission was established in 1951 and since then barring a few years when annual plan was implemented, five year plans were implemented with specific growth rates and focus area. During the Seventh Five Year Plan there was political instability in the country which led to economic instability as well. The country went into huge debt and the foreign exchange crisis ensued. The crisis of 1991 prompted reforms in the country which brough about a 180 degree change in the economic outlook. Liberalization, privatization and globalization were adopted to lessen the role of the state. In 2014, with the change in the leadership of the country, Niti Aayog replaced Planning Commission. The role changed to advisory with experts from various fields involved in the process.

Keywords

Cooperative Federalism: Cooperative federalism, also known as marble-cake federalism, is defined as a flexible relationship between the federal and state governments in which both work together on a variety of issues and programs.

Economic Crisis: The 1991 Indian economic crisis was an economic crisis in India that resulted from poor economic policies, inefficient public sector units, and the resulting trade deficits leading to balance of payments crisis.

Economic Reforms: Economic reforms refer to the fundamental changes that were launched in 1991 with the plan of liberalising the economy and quickening its rate of economic growth. The Narasimha Rao Government, in 1991, started the economic reforms in order to rebuild internal and external faith in the Indian economy.

NITI Aayog: The NITI Aayog serves as the apex public policy think tank of the Government of India, and the nodal agency tasked with catalyzing economic development, and fostering

cooperative federalism through the involvement of State Governments of India in the economic policy-making process using a bottom-up approach.

Planning Commission: Planning Commission, agency of the government of India established in 1950 to oversee the country's economic and social development, chiefly through the formulation of five-year plans.

Self Assessment

1. The People's Plan in 1944 was proposed by

A. Dadabhai Naoroji

B. M N Roy

C. Jamnalal Bajaj

D. J R D Tata

2. The first five year plan was based on

A. Harod Domar Model

B. Nurkse Model

C. Mahalanobis Model

D. Leontief Model

3. The annual plans were known as

A. One-year plan

B. Single plan

C. Plan holiday

D. None of the above

4. The second five-year plan was based on

A. Harod-Domar Model

B. Nurkse Model

C. Mahalanobis Model

D. Leontief Model

5. The full form of NITI Aayog is

A. National Institute for Transgressing India

B. National Institute for Transforming India

C. National Institute for Targeting India

D. It is not an abbreviation

6. How many verticals does the NITI Aayog has?

A. Twenty-One

B. Twenty-Two

C. Twenty-Three

D. Twenty-Four

7. Is fostering cooperative federalism a function of NITI Aayog?

A. True

B. False

8. Which of the following is not a vertical of NITI Aayog?
A. Health
B. Rural development
C. Industry
D. Telecommunications

9. The administrative relations are given in articles ….
A. 245-255
B. 256-263
C. 268-293
D. 300-312

10. The legislative relations are divided in to how many parts
A. One
B. Two
C. Three
D. Four

11. Currently how many subjects are there in the Union List.
A. 52
B. 61
C. 100
D. 105

12. Education is a part of
A. Union list
B. State list
C. Concurrent list
D. Depends on the central government

13. Why did India nationalize the coal mines?
A. To counter the oil shock of 1973
B. To remove corruption in mining
C. The government wanted to earn revenue from mining
D. To support socialist plans

14. Why did the second oil crisis of nineteen seventies take place?
A. Embargo imposed by OPEC countries on USA
B. Iran revolution
C. Shortage of oil in the world
D. Strike by the shipping industry

15. What was the amount of loan taken from IMF?
A. 5 billion SDR
B. 5.2 billion SDR
C. 5.6 billion SDR
D. 5.8 billion SDR

Answers for Self Assessment

1.	B	2.	A	3.	C	4.	C	5.	B
6.	A	7.	C	8.	D	9.	B	10.	C
11.	C	12.	C	13.	A	14.	B	15.	D

Review Questions

1. Outline the changes in the Planning strategy in India.
2. What are the functions of Niti Aayog?
3. In a democracy like India, which is a better institution for Planning- Planning Commission or Niti Aayog and why?
4. "The reforms introduced in 1991 were a result of the crisis that emerged from bad governance". Comment
5. Critically analyze the reforms of 1991.

Further Readings

Dutt and Sundharam, The Indian Economy, S. Chand & Company

Nilanjan Banik, The Indian Economy, Sage Publications

Uma Kapila, Indian Economy Performance and Policies, Academic Foundation

Unit 04: Demographic Constraint

CONTENTS

Objectives

Introduction

4.1 Meaning

4.2 Demography: Definitions

4.3 The Theory of Demographic Transition

4.4 Demographic Profile of India

4.5 Structural Constraint in Economic Growth

4.6 Sustainable Development and Climatic Changes

Summary

Keywords

Self Assessment:

Answers for Self Assessment

Review Questions

Further Readings

Objectives

After studying this unit, you will be able to,

- understand the impact of demography on economic growth and comprehend the concept of demographic dividend in detail
- Analyse the structural constraint for economic growth of India
- Discuss sustainable development goals and Climate change policy.

Introduction

The relationship between population growth and economic development has been debated for several decades. The early Malthusian view was the pessimistic argument stating that population growth impedes economic growth resulting in reduction in per-capita income and resources which results in deterioration of quality of life. The optimistic argument emphasises that population growth promotes economic development as experienced by several East Asian countries. A young educated population increases productivity and contributes to invention and innovation of technologies.

An increase in the proportion of working age population (15-59) and fall in the proportion of dependent population of age groups (0-15) and 60+ gives birth to a window of opportunity termed as demographic dividend. The working age population helps in increasing savings, investment and improves the economic prosperity and standard of living of people. However, the benefits of demographic dividend are not automatic or guaranteed. It depends upon several factors like education, health, employment, infrastructure, right economic policies, and good governance. The potential demographic dividend if not actualised may turn into demographic disaster where young population becomes a liability or permanent burden on the economy.

4.1 Meaning

Demography means 'the scientific study of human population, with respect to size, structure and development'. The study of Demography is important since human population in terms of its structure, composition and growth, has significant bearing on economic growth and development. Population is the only and ultimate source of labour supply for development activities. It is also the ultimate beneficiary of development. Hence, population is both the means and the end of economic development. In India, the Demographic data is available in the Census Reports which is conducted every once in ten years. The last such census was conducted in the year 2011. The present unit delves into the important demographic features of India.

Importance of Demographic data: Demographic data is any data that provides an understanding of population size, distribution, and composition (Murdock and Ellis, 1991). Moreover, it is vital for planning and implementation of policies, for better economic development and general public welfare. In addition, health status of a community also depends on the dynamic relationship between number of people, their composition and distribution. Demographic variables can assist in the planning of health related services and can deliver a basis for predicting future developments and making informed decisions for the formulation, implementation, and evaluation of plans, policies and programs for education, housing, health, employment and other forms of social services. According to Bloom, the world experienced a dramatic population growth during the twentieth century, with the number of populations doubling from 3 to 6 billion between 1960 and 2000 (Bloom, 2011). India witnessed rapid population growth during this period from 448 million to 1.04 billion and to 1.21 billion in 2010 (Bloom, 2011). Global population grew at roughly 2% per annum from 1960-2000, a level that is unsustainable in the long term, as it translates into population doubling every 35 years. According to the latest statistics, India's population is currently growing at a rate of 1.4% per year, far surpassing China's rate of 0.7%. This may result in India surpassing China with respect to population size in less than 20 years (Bloom, 2011).

4.2 Demography: Definitions

Demography and Population studies: The study of human population is mainly known as Demography and Population studies. In many instances, these two terms are used interchangeably, but some scholars also try to distinguish between the two. Broadly speaking, Population studies are concerned with understanding what are the kinds of changes taking place in the size and nature of human populations. Demography refers to the hardcore analysis of numbers while population studies look at the behavioral aspects affecting the reproductive behavior of people. Demographic determinants such as fertility, mortality and migration are the three basic aspects which influence the population of a particular place.

4.3 The Theory of Demographic Transition

The process by which fertility rates eventually decline to low and stable levels has been called demographic transition. Fertility rate is defined as the average number of children per women in the reproductive age group. Demographic transition postulates three stage sequences of birth and death rates which are associated with economic development. It explains phasing out process of population growth rates starting from virtually stagnant growth stage characterised by high birth and death rates through a rapid-growth stage with high birth and low death rates to stable, low growth stage in which both birth and death rates are low. This demographic transition has been witnessed in contemporary developed nations as they developed and one can identify the developing nations as they move through the different stages of this transition. The issue is what explains this transition or what are the factors that contribute to it.

First Stage of Demographic Transition

In this stage the death rates are high due to absence of effective medical aid, primitive sanitation, and poor diets. The birth rates are also high on account of absence of knowledge about family planning techniques, early age of marriage, illiteracy and deep-rooted social beliefs, and customs about the size of the family including, as an insurance against high child mortality rates. The actual rate of growth of population is low since high birth rate is balanced by high death rate.

Second Stage of Demographic Transition

With economic development resulting in high incomes, improvement in public health facilities there is a marked decline in mortality that raises life expectancy from under 40 years to 60 years. However, the decline in death rate is not immediately accompanied by decline in fertility. In this stage of demographic transition, with declining death rate, birth rate does not fall correspondingly. This leads to transition from stable or slow growing population to rapidly increasing population.

Third Stage of Demographic Transition

The forces and influences of modernisation (including increase in female work participation rate and move towards nuclear families) and economic development causes fertility rate to decline so that falling birth rate eventually converges with the death rate leaving little or no population growth. The characteristics of the third stage are low birth rate, low death rate, small family size and low growth rate of population.

4.4 Demographic Profile of India

Post-independence, India's economic development can be seen in terms of the following phases, each with its characteristic pace of advancement, policy guidance and attendant changes in the structure of the economy:

Phase I: 1950-1980

India's GDP increased at an annual average rate of 3.5 per cent.1 During this period, population has also increased at an annual average rate of over 2.00 per cent. Therefore, the real per capita income has increased only at an annual average rate of 1 per cent. During the first decade, real national income went up by 3.8 per cent (1.8%), this rate came down to 3.5 per cent (1.2%) in the 1960s, and 3.1 per cent (1.1%) in the 1970s. During this phase, the nation followed the Socialist regime with the objectives of planning being—rapid industrialisation with emphasis on developing a strong investment goods sector, poverty alleviation, improving per capita incomes and an even distribution of income. Public sectors played a central role to the public sector. Import substitution, export subsidies and stringent restraints on technology and investment cooperation with the rest of the world— kept India somewhat a closed economy. Substantial controls on capacity expansion and licensing requirements for manufacturing industries were also part of the policy strategy.

Phase II: 1980-1990

A reversal of trend occurred during the 1980s: the average annual rate of growth increased to around 5.5 per cent. The socialist flavour of the Nehruvian policies was blamed for the worsening of the growth performance of the Indian economy by the 1970s for these policies are believed to limit the foreign competition and make domestic firms inefficient and also limit a productivity-enhancing structural transformation by restricting the possibilities of resource reallocation to more productive sectors. In contrast, post-1980 period featured several pro-business policies and reforms including import liberalisation, export incentives, exchange rate policies, and expansionary fiscal policy.

Phase III: 1990-2008

In the first three years of the 1990s, the GDP grew at 4 per cent annually. In the following four years, the growth rate jumped to 7.1 per cent but only to fall back to 5.2 per cent in the succeeding five years. The underlying trend growth rate during the decade was just over 6 per cent. However, subsequently the period 2003-08 saw the real GDP grow at 8.2 per cent annually. Meanwhile population growth rate stabilised at around 1.1% per annum. The sustained growth at 8 per cent plus resulted from many serious policy initiatives on the part of the government. Significant lowering of tariff and nontariff barriers (trade policy reforms) along with a major revamping of industrial policies, especially the withdrawal of industrial regulation and liberalisation of foreign direct investment (FDI) were introduced. These, coupled with favourable external environment in the form of rising exports and increasing inflows of foreign capital, set in motion three factors which can be described as three engines of growth.

One, consumption spending was a large contributor to the growth performance. Decreasing relative prices of many goods and services as a result of domestic and global competition, competitive pressures in retail finance and steadily rising incomes compound into a powerful force, even if each of the components may not be very large. Two, investment in new capacity was the second engine of growth. Investment activity is characterised by a certain lumpiness, which means

that capacity addition comes in spurts, exceeding immediate requirements but anticipating a subsequent catch-up in demand. Investment spending, consequently, goes up sharply at the beginning of a cycle and declines just as abruptly once the desired capacity has been created. The investment cycle was on upswing. Three, exports of both goods and services were the third engine of growth. India's merchandise exports got getting diversified geographically and, therefore, were not very vulnerable to localised business cycles. All these three engines gained an additional boost by what appears to be a sustained, across-the-board increase in productivity.

But this phase also shared one major weakness with the previous phase: labour intensive manufacturing remained sluggish. The end to licensing and to the small scale industries reservation in most labour-intensive products did not have the intended outcomes in this sector. The reasons for this are well-known (labour market rigidities facing large-scale producers, infrastructure bottlenecks and bureaucratic red tape). Unfortunately, without rapid expansion of the unskilled labour-intensive industry, progress towards poverty reduction and transition to a modern economy will remain far slower than is feasible.

Phase IV: 2008-2014

The growth process slowed during 2008-09 in the wake of the global economic crisis, although some indicators of slowdown had made their presence felt even earlier. Global economic crisis resulted in (i) fall in inflows of foreign direct investment, (ii) rise in outflows on account of portfolio disinvestment, (iii) decline in export orders from developed market economies, as a result of which domestic investment, employment and consumption slowed down. The slowdown affected all sectors of the economy; growth rate in service sector during 2008-09 came down to 9.3 per cent, against 10.8 in 2007-08, in agriculture to 1.6 per cent from 4.9 per cent, and in industry to 3.9 per cent from 7.4 per cent. The decline in service activity could be attributed to lower demand for off-shoring and IT and IT-enabled services from the US and Europe, where several economies are grappling with debt problems. There was also an impact on financial services as banking activity slowed down on account of higher interest rates and investors were scared of parking their funds in stock markets. Real GDP growth rate slowed down to 6.5% per cent during 2011-12. It continued to be low on subsequent two years 2012-13 and 2013-14. Apart from the slow recovery in India's export destinations there were several domestic policy concerns including– ban on iron ore mining, cancellation of coal blocks, delays in environmental clearances, emergence of the Non Performing Asset (NPA) crisis and the consequent double balance-sheet problem that resulted in this slowdown. Another major concern at this stage, though not entirely unexpected, was the sharp dip in the growth rate of private consumption. Four factors seem to have contributed to this slowdown. First, it could be due to the wealth effect, resulting from a decline in the asset (equity/property) prices. Second, the uncertainty in the labour market and some decline in employment in India's tradable sectors may have moderated the growth in consumption expenditure. Third, cutbacks in consumer credit by private banks, NBFCs and other lenders, because of their limited deposit base and difficulties in secondary market financing because of the knock-on effect of global financial market freezing. Fourth, during slowdown a dominance of precautionary motive may have induced consumers to either defer their spending decisions or shift to unbranded lower quality alternatives Similarly, the slowdown in the growth rate of gross fixed capital formation (GFCC) was an area of policy concern from the point of an early return to the high GDP growth path. Apart from the demand shock to the economy several reasons could have contributed to deceleration in growth of GFCF. First, surge in domestic inflation in the first half of 2008 reinforced the tightening of monetary policy. It affected the cost and availability of funds for investment. Second, since inflation was largely on account of metals and fuels, bulk of it was absorbed by industry, which affected its internal accruals and profitability, reducing the investible funds. Third, despite monetary policy becoming accommodative in the second half of 2008, decline in interest rates were not up to the industry expectations. A significant stimulus package in three tranches was put in place by the government involving expansion in government spending and reduction in indirect taxes to boost domestic demand. By the end of the year 2008-09, India was rapidly returning to the buoyant years preceding 2008.

Phase V: 2014-2019 and 2019 onwards

During the period from 2014-15 to 2018-19, Indian economy registered an average GDP growth rate of 7.5 per cent. Several initiatives taken by the government to spur growth include — government following the 4 R approach of Recognition, Resolution, Recapitalisation and Reforms to strengthen banks and foster clean and responsible banking, simplification of the Labour Laws, bringing reforms in Corporate Affairs, introduction of e-Clearances, relaxing foreign direct investment rules, easing Know Your Customer (KYCs) for investors in Capital Markets, rendering more support to Non-Banking Finance Companies (NBFCs)/ Housing Finance Companies (HFCs) and Micro, Small

and Medium Enterprises (MSMEs), introduction of indirect tax reform in the form of Goods and Services Tax (GST), introduction of Insolvency and Bankruptcy Code (IBC) for the speedy resolution of insolvency and bankruptcy cases of companies, Demonetisation to curb black money, corruption and counterfeit notes, which in turn opened gates for cashless economy, etc.

India's GDP growth moderated to 5 per cent in 2019-20 as compared to 6.8 per cent in 2018-19, amidst a weak environment for global manufacturing, trade and demand. The economic state of the Indian economy from 2019 onwards may be identified as 'pause phase'. During the pause phase the clouds over India's economic performance and prospects are getting bigger and darker. First, India's economic growth has slowed, aggregate investment has slackened and it could get worse. Second, inflation needs to be monitored. Third, the country's external imbalances are growing at a time when capital flows are becoming more volatile. Fourth, with investment momentum remaining significantly below its trend, the persistent weakness in consumption is a concern. Consumption has typically provided a steady and elevated floor for India's growth. Fifth, the sub-segment of "trade, hotels, transport and communications," which is typically an important source of resilience for the services sector, is slowing consistently. Sixth, growth in agriculture may take some hit. Seventh, the fiscal-monetary mix is completely out of work and there is hardly any flexibility on the fiscal front. More importantly, some fiscal responsibility will warrant spending cuts and revenue enhancement in order to shrink the fiscal deficit. Likewise, the RBI is expected to anchor expectations without offering one-or two-year forward guidance. Finally, the impact of Covid-19 pandemic on the Indian economy has been largely disruptive in terms of economic activity as well as a loss of human lives. Almost all the sectors have been adversely affected as domestic demand and exports sharply plummeted with some notable exceptions where high growth was observed. Tourism, Hospitality and Aviation were among the worst affected sectors. Consumption also got impacted due to job losses and decline in income levels of people particularly the daily wage earners. Greater uncertainty about the future course and repercussion of Covid-19 also made the financial market extremely volatile. There is likelihood that the three major components of aggregate demand — consumption, investment, and exports are likely to stay subdued for a prolonged period of time. On the supply side, shutdown of factories and the resulting delay in supply of goods from China affected many Indian manufacturing sectors. Some sectors like automobiles, pharmaceuticals, electronics, chemical products etc. faced an imminent raw material and component shortage.

4.5 Structural Constraint in Economic Growth

The extreme version of the population-as-a-serious-problem position attempts to attribute almost all the world's economic and social evils to excessive population growth. Unrestrained population increase is seen as the major crisis facing mankind today. It is claimed to be the principal cause of poverty, low levels of living, malnutrition and ill-health, environmental degradation, and a wide array of other social problems. Value-laden and incendiary words, such as the 'population bomb' or 'population explosion' are tossed around at will. Indeed, dire predictions of world food catastrophes and ecological disaster are attributed almost entirely to the growth in numbers. Growth researchers has established that population growth has a negative impact on economic development by way of hampering various sectors like education, health, environment, food, economic growth (Todaro & Smith, 2009). Let us discuss some of these areas that are mentioned above.

i) **Increasing Poverty:** the negative consequences of rapid population growth effect most heavily to the poor because they are the ones who are landless and suffers first from cuts in government health and education programme, bear the brunt of environmental damage and are the main victims of job cut due to the slower growth of the economy.

ii) **Retarding Economic Growth:** evidence shows that rapid population growth lowers per capita income growth in most of the developing countries particularly countries that are already poor and mostly agrarian based economy.

iii) **Problems of Food Scarcity and Security:** rapid increase of population poses serious challenges to provide foods (both, in terms of quantity and quality) to billions of population in developing countries. New technologies have to be invented because fertile lands have already been cultivated and levels of food production have reached a point of saturation.

iv) **Education:** studies reveal that large family and low income tends to restrict parents to provide education to all the children. In this situation, it has been observed, particularly in developing countries, preference is given male children. Rapid population growth also affects quality of education as the government has less funds to address, equally, the need for all learners, and this directly affects the development of human capital.

v) **Health:** high fertility harms health of mothers and children. It also increases the health risk of pregnant mothers. It not only affects mothers but also affects newborns, in terms of low birth weight as well as increased infant mortality rate.

vi) **Environmental Degradation:** the earth's carrying capacity is burdened, not only by the demands of growing population, but also by food requirements by billions of livestock. This leads to the clearing of land for cattle ranching and overgrazing by livestock. While the former is an important factor in tropical deforestation, the latter is a major cause of desertification and soil loss in many countries.

Therefore, it has been argued that population growth leads to various environmental degradation like Population deforestation, desertification and soil erosion, declining fish and animal resources, air and water pollution, etc.

4.6 Sustainable Development and Climatic Changes

Sustainable development has an important role and place in the discourse on development. Sustainable development is the centre of debates and discussions among the development experts, environmentalists and national leaders of both developed and developing countries. The United Nations and its agencies, as well as many international institutions, commissions and world leaders do recognise the significance of sustainable development.

Much before the Brundtland Report's definition of sustainable development, in the early 1970s, the term sustainable development was coined by Barbara Ward (known as Lady Jackson), founder of the International Institute for Environment and Development in the early 1970s. Sustainable development for her was largely about people, their economic and social well-being and aspirations for equity in their relationships with each other, in a context where environment-society imbalances could threaten economic and social stability.

The legacy of the concept of sustainable development is however attributed to the Brundtland Report or the Report of the World Commission on Environment and Development entitled Our Common Future, which defines it as development that "meets the needs of the present without compromising the ability of future generations to meet their own needs." Thus, it seeks to satisfy the compulsions of equity within the human generations and also between them.

'Sustainable development thus, is development that meets the needs of present and future generations. Given the global and local effects of environmental decay, it is no surprise that sustainable development has become a catchword in development planning and resource management. However, interpretations of this concept are still ambiguous. According to the Brundtland Report, the idea of sustainable development reaches far beyond environmental protection, as it means a process of change in which exploitation of resources, direction of investments, orientation of technological development, and institutional changes are made consistent with future, as well as present needs. It is not a fixed state of harmony, but rather a balanced and adaptive process of change.

Sustainability takes for granted "the balance between economic development - all quantitative and qualitative changes in the economy that offer positive contributions to welfare-and ecological sustainability - all quantitative and qualitative environmental strategies that serve to improve the quality of an ecosystem and hence also have a positive impact on welfare." Both economic and environmental systems, need a certain minimum threshold value to survive.

"In essence, sustainable development is a process of change in which the exploitation of resources, the direction of investments, the orientation of technological development, and institutional change, are all in harmony and enhance both current and future potential to meet human needs and aspirations. "The Brundtland Commission's definition of the term – "meeting the needs of the

present generations without compromising the needs of future generations" – is strongly endorsed by the World Development Report 1992

It is pertinent that development is sustainable, as it saves wastage in the national budget, fulfills the needs of people, helps in coordination between the natural resources and people and conserves natural resources for future generations. We all know that the e-goal of sustainable development is to meet the needs of today, without compromising the needs of tomorrow. This means we cannot continue using the resources at the current rate, as this way not enough would remain for future generations. Stabilising and reducing carbon emissions is the key to living within environmental limits. Sustainable development believes that operating within the right economic, social and environmental boundaries will create a truly sustainable health system, one that is fit for the future. The scope of sustainable development is very wide, as it deals with areas like social, economic, environmental, and institutional dimensions.

Social Dimension

The social dimension of sustainable development includes ensuring a strong, healthy and just society with emphasis on 'zero hunger', 'good health and wellbeing', 'quality education', 'population control 'and 'gender equality'.

Economic Dimension

The economic dimension of sustainable development includes economic wellbeing of the masses with emphasis on 'no poverty', 'sustainable economy', 'employment opportunities', especially for women, 'decent work and economic growth', 'managing natural resources', and 'responsible consumption and production'.

Environmental Dimension

The environmental dimension of sustainable development includes promoting environment-friendly and biodegradable products with emphasis on 'clean water and sanitation', 'affordable and clean energy', 'reducing emissions from industry, transport and energy' (minimising the release of Greenhouse Gases, which contribute to global warming and air pollution), 'encouraging use of renewable sources' (such as solar, wind and water energies), 'climate action' and 'preservation of natural resources', while respecting and protecting natural habitats (life below water and life on land) of life forms.

Institutional Dimension

The institutional dimension of sustainable development includes 'industry, innovation and infrastructure', 'sound financial resources', 'peace, justice and strong institutions', 'sustainable cities and communities', 'partnerships for the Sustainable Development Goals (SDGs)', and 'international cooperation'.

SDGs of the United Nations

The United Nations created a set of 17 distinct, but interrelated goals to guide global development between 2015 and 2030. Each goal has a set of targets – 169 altogether – with subsets of indicators – 232 in total. The SDGs also known as the global goals were adopted by all UN Member States in 2015 as a universal call to action to end poverty, protect the planet and ensure that people enjoy peace and prosperity by 2030.

The 17 SDGs are: i) No poverty, ii) Zero Hunger, iii) Good Health and Wellbeing, iv) Quality Education, v) Gender Equality, vi) Clean Water and Sanitation, vii) Affordable and Clean Energy, viii) Decent Work and Economic Growth, ix) Industry, Innovation and Infrastructure, x) Reducing Inequality, xi) Sustainable Cities and Communities, xii) Responsible Consumption and Production, xiii) Climate Action, xiv) Life Below Water, xv) Life on Land, xvi) Peace, Justice and Strong Institutions; and xvii) Partnerships for the Goals.

On July 6, 2017, UN Resolution was adopted by the General Assembly. The Resolution identifies the specific targets for each goal along with indicators that are being used to measure progress towards each target. Achieving the SDGs requires conducive partnership of government, private-sector, civil society and citizens; to make sure we leave a better planet for the future generations.

The SDGs pay attention to multiple cross – cutting issues, like gender equity education, and culture cut across all the SDGs. To achieve sustainable development, many sectors need to come together. The economic, social, political and environmental sectors are all needed for all critically important

and interdependent development decisions. Progress will require multidisciplinary and transdisciplinary research across all these sectors. This proves to be difficult when the major governments fail to support it. According to the UN, the target is to reach out to the community as widely as possible. However, data or information must adjust for vulnerable groups such as children, elderly, persons with disabilities, indigenous people, migrants, and internally displaced persons. There were serious impacts and implications of Covid-19 Pandemic on all 17 goals in the year 2020.

Sustainable Development and Climate Change:

According to the Sustainable Development Goals Report, 2019, the most urgent area for action is climate change. There is an urgent need to contain the greenhouse gases emissions, so that the global average temperature don't overshoot 2.0oC. The impacts of climate change are catastrophic and irreversible; increasing frequency and magnitude of disasters; ocean acidification; land degradation and coastal erosion; and loss of biodiversity. The climate change effects the poor and disadvantaged group. They have potential to impact the agricultural production leading to food shortages, famines and hunger. Further, climate change is projected to displace up to 140 million people by 2050. According to the World Meteorological Organization, 2018 was the fourth warmest year on record, with the past four years (2015, 2016, 2017, 2018) being the four warmest years on record. The world continues to experience rising sea levels, extreme weather conditions and increasing concentrations of greenhouse gases. Climate change is a crosscutting and immediate threat to the achievement of the SDGs, and to the survival and well-being of island nations and coastal communities. This calls for urgent and accelerated action by countries as they implement the 2030 Agenda for Sustainable Development and their commitments to the Paris Agreement on Climate Change.

Status and Trends: Climate Change

Climate change is happening right now, and its effects are clearly visible. The global mean temperature for 2018 is estimated to be 0.99 ± 0.13 °C above the preindustrial baseline, arctic temperatures exceptionally high relative to long-term average, and many countries experienced their warmest year on record. The impacts are being felt all over the world and addressing these require a robust two-pronged approach: reduction in the greenhouse gas emissions, and adaption planning. As of February 2019, 185 parties had ratified the Paris Agreement. Parties to the Paris Agreement are expected to prepare, communicate and maintain successive nationally determined contributions (NDCs). As of 27 February 2019, 182 Parties (181 countries plus the European Commission) had communicated their first NDCs to the United Nations Framework Convention on Climate Change Secretariat (UNFCCC).

Climate action requires efforts on mitigation, adaptation and means of implementation – climate finance, technology and capacity building. Just as problems are interrelated, the solutions to poverty, inequality, climate change and other global challenges are also interlinked. Valuable opportunities exist to accelerate progress by examining inter-linkages across goals. For example, tackling climate change requires a shift to clean energy, reversing the trend in forest loss, and changing our production and consumption patterns. Promoting sustainable agriculture can help reduce both hunger and poverty, since close to 80 per cent of those who are extremely poor live in rural areas. Increasing access to safe drinking water, sanitation and hygiene can save millions of lives per year and improve school attendance.

Sustainable Development Goal 13 (SDG 13 Climate Action) commits to take "urgent action to combat climate change and its impacts", emphasizing globally agreed need to mitigate anthropogenic greenhouse gas emissions and adapt to the damages caused by climate change, while acknowledging that the "United Nations Framework Convention on Climate Change is the primary international, intergovernmental forum for negotiating the global response to climate change." The UNFCCC acknowledges that "the global nature of climate change calls for the widest possible cooperation by all countries and their participation in an effective and appropriate international response, in accordance with their common but differentiated responsibilities and respective capabilities and their social and economic conditions."

To achieve the Sustainable Development Goals and implement the Paris Agreement, developed and developing countries alike will need to transform their energy systems, ecosystem management, agriculture and land use, urban management, material use, gender outcomes, health, education,

governance and other areas. Goal 13 in particular focuses on the "urgent action" required to "combat climate change and its impacts", thus incorporating both climate change mitigation and climate change adaptation. Its scope includes three targets: 13.1- strengthen resilience and adaptive capacity to climate related hazards and natural disasters in all countries; 13.2- integrate climate change measures into national policies, strategies, and planning; and 13.3- improve education, awareness raising and human institutional capacity on climate change mitigation, adaptation, impact reduction, and early warning.

Global Warming of 1.5°C Special Report

According to the "Global Warming of 1.5°C Special Report" from the Intergovernmental Panel on Climate Change (IPCC), the world has already warmed by 1°C, increasing the episodes and intensity of extreme weather events. The report states that limiting global warming to 1.5°C is still possible but would require "rapid and far-reaching" transitions in how we manage land, energy, industry, buildings, transport and cities. Specifically, global net human-caused emissions of carbon dioxide would need to fall by about 45 per cent from 2010 levels by 2030, reaching "net zero" around 2050.

Achieving all other SDGs will be much more challenging without urgent climate action, including those related to poverty, hunger, access to water, terrestrial and marine ecosystems, health, gender equality and the empowerment of women and girls, among others. Conversely, many of the goals and targets can also be achieved in ways that would enable adaptive responses to climate change. The energy transitions envisaged in SDG 7 would contribute significantly to lowering greenhouse gas (GHG) emissions relative to business-as-usual pathways.

From the perspective of protection of climate system and GHG emission reduction, UNFCCC and SDG 13 endeavour to strengthen and augment the resilience and adaptive capacity. The developing countries and low income countries in their pursuit to sustainable development, require climate change interventions, which demand both "financial and technological inputs".

Goal 13: Take urgent action to combat climate change and its impacts

The United Nations Framework Convention on Climate Change is acknowledged as the primary international, intergovernmental forum for negotiating the global response to climate change.

1: Strengthen resilience and adaptive capacity to climate related hazards and natural disasters in all countries.

2: Integrate climate change measures into national policies, strategies, and planning.

3: Improve education, awareness raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction, and early warning.

a: Implement the commitment undertaken by developed country Parties to the UNFCCC to a goal of mobilizing jointly USD100 billion annually by 2020 from all sources to address the needs of developing countries in the context of meaningful mitigation actions and transparency on implementation and fully operationalize the Green Climate Fund through its capitalization as soon as possible.

b: Promote mechanisms for raising capacities for effective climate change related planning and management, in LDCs, including focusing on women, youth, local and marginalized communities.

Summary

Demographics matter for economic development. India has several advantages that can make potential demographic dividend become actual demographic dividend. But there are several constraints as well that make the gap between the potential and the actual demographic dividend difficult to bridge. Demographic dividend manifests itself when there is careful interaction of demographic change with policies in the areas of education, health, trade, governance, labour market conditions and capital markets. A productively employed working age population is the key to realisation of actual demographic dividend. A healthy workforce that is educated and productively absorbed in different sectors is always an asset for a nation. To attain the goal of absorption of millions of youth entering labour force every year we need to emphasise on improved health care facilities, human resource development skills, quality education, reduction of malnutrition and productive employment opportunities. The effect of labour force participation rates especially female labour force participation shall also determine India's ability to unlock the

demographic dividend. This window of opportunity will close around 2040. Hence, given the limited time and resources and huge unemployed pool of manpower it is a challenging task for any government. It will not take much for the demographic dividend to turn into demographic disaster How effectively India tackles this issue will determine its progress to becoming a developed nation in the near future.

In refer to above structural issues, it becomes imperative that climate change threatens decades of development progress and jeopardizes inclusive and sustainable growth. The SDGs framework provides the best path for addressing this climate emergency in ways that help everyone, in particular women, children, youth, older persons, persons with disabilities and those living in small island developing states. We have discussed in this unit the genesis of sustainable development and sustainable development goals; recognized the urgency for climate action through SDG 13; and reviewed the progress and preparedness of India towards the SDG 13, which further helps the country to grow.

Keywords

Demographic Transition: This is a model used to represent the process of Model explaining the transformation of countries from high birth rates and high death rates to low birth rates and low death rates as part of the economic development of a country from a pre-industrial economy to an industrialized economy.

Natural Growth Rate: This shows the difference between the birth rate and the death rate.

Development: It is a process of improving the well-being of the people. It is about raising the standard of living of the people, improving their education and health, and also giving them new and equal opportunities for a richer and more varied life.

Sustainability: It means meeting the present needs without compromising the ability of future generations to meet their own needs.

Environment: It is the sum total of all social, biological, physical or chemical factors, which compose the surroundings of a human being.

Green Climate Fund: Established by the UNFCCC, as an operating entity of the financial mechanism to assist developing countries in mitigation of and adaptation to practices to climate change.

Self Assessment:

1. The demographic transition is a specific change in the …….. behaviour of a population

A. Productive
B. Reproductive
C. Cosmic
D. Cognizant

2. In the pre transitional phase, the birth rate and death rate are

A. Equal
B. Unequal
C. Not related
D. Depends on the country

3. In which of the two following phases, the birth rate and death rate are equal

A. Pre transitional and post transitional
B. Pre transitional and transitional
C. Transitional and early transitional
D. Late transitional and post transitional

4. The dependency ratio had changed from …. percent to …. percent
A. 92 to 65
B. 65 to 92
C. 75 to 92
D. 92 to 75
5. Demographic dividend is a situation when
A. Working age population is above 40 percent and dependency ratio is high
B. Working age population is above 60 percent and dependency ratio is low
C. Working age population is above 40 percent and dependency ratio is low
D. Working age population is above 60 percent and dependency ratio is high

6. The number of people in the age group of 15-59 years will peak in which year
A. 2034
B. 2035
C. 2036
D. 2037

7. What percentage of population lives under urban area in India?
A. 32%
B. 34%
C. 36%
D. 38%

8. Is urbanization a sign pf development?
A. True
B. False

9. What is the rank of India in the Global Hunger Index 2020?
A. 94
B. 93
C. 92
D. 91

10. How many countries participated in the global hunger indexing?
A. 101 countries
B. 103 countries
C. 107 countries
D. 109 countries

11. Which summit led to the formation of United Nations Environment Program?
A. Rio summit
B. Stockholm summit
C. Paris summit
D. Argentina summit

12. Agenda 21 was set up in which summit?

A. Rio summit
B. Stockholm summit
C. Paris summit
D. Argentina summit

13. Which developed nation moved out of the Paris agreement?
A. Australia
B. France
C. United States of America
D. United Kingdom

14. Which country is the highest emitter of carbon in the world?
A. China
B. USA
C. India
D. Mexico

15. Green field projects are made on
A. Huge pastures of green field
B. In states having more than 30% area under forest
C. On unused land
D. All the above

Answers for Self Assessment

1.	B	2.	A	3.	A	4.	A	5.	B
6.	C	7.	B	8.	A	9.	A	10.	C
11.	B	12.	A	13.	C	14.	A	15.	C

Review Questions

1. "India has the advantage of harnessing the benefits of demographic dividend but this is neither obvious nor guaranteed." Explain.
2. "The Demographic Dividend is one time opportunity and is expected to last for 25 years." In the light of the statement explain the challenges on the way of reaping demographic dividend in India.
3. How do you see the impact of the post-2014 policy measures on the Indian economy?
4. "The pattern of structural change in the Indian economy has deviated from the development pattern of Western and South Asian economies." Examine this statement.
5. Describe briefly, what would be the tentative population scenario in 2050.
6. Explain the principles and features of sustainable development.
7. Discuss India's preparedness for achieving SDG 13.
8. How do the perspectives of the developed and developing world differ regarding the concept of sustainable development?

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Unit 05: Poverty and Inequality in India

CONTENTS

Objectives

Introduction

5.1 State of the Indian Economy at the Time of Independence

5.2 Poverty

5.3 Economic Inequality

5.4 Poverty Alleviation Programs

5.5 National Rural Employment Programme (NREP)

Summary

Keywords

Self Assessment

Answers for Self Assessment

Review Questions

Further Readings

Objectives

- Discuss the periodization of the growth of Indian economy
- Define poverty and describe the causes of poverty
- Evaluate the various poverty alleviation programs
- Analyse inequality in post reforms India

Introduction

India is today counted as top economic destination all over the world. Till a few years back, China and India commanded the top position in terms of the prospects of the economy. It has been a promising country as it attracts huge amount of FDI and FII. In contrast with other developing countries, India adopted a mixed economy model which saw a conflux of public sector and the private sector. The state looked after the development of infrastructure in the economy and all those projects which had long gestation period. The private sector was entrusted with the consumer goods industry. India adopted a planned economic model where the Planning Commission would decide the priority areas the allocation of resources were done accordingly. In the sixties nationalisation of banking and insurance sector took place which empowered the state further. The change in the world order in the 1980s prompted the government to move away from a socialistic state to a more market dominated economy. In 1991 the New Economic Policy was declared which changed the structure of the economy dramatically. The income of the masses went up and there was change in the priorities of the government as well. During this continuous evolution of the economy, poverty and inequality also grew as the trickle-down effect did not work. This chapter will discuss the periodisation of the economy and look at the two main obstacles of high growth and development that is, poverty and inequality.

5.1 State of the Indian Economy at the Time of Independence

The main purpose of the British rule in India was to use the Indian economy as a source of cheap raw materials and a market for the goods manufactured by their industries. Therefore, the British rulers did not bother to develop the Indian economy. Consequently, India had a backward agricultural sector as well as an underdeveloped industrial sector.

In 1950-51, the per capita income in India, at the then prevailing prices, was only about rupees two hundred and forty. There was a mass illiteracy. In India, just before the start of the first plan, less than 17 per cent of the population was literate. Due to lack of medical facilities, low level of nutritional food due to abject poverty, both the death rate and birth rate were very high. Between 1941-51, the birth rate was more than 3.99 per cent and death rate 2.74 per cent per annum. Thus natural growth rate in population was about 1.25 per cent per annum.

lndian economy at the time of independence was a poor agriculture based economy. About 75 per cent of the population was engaged in the agricultural sector. In spite of this India was not self-sufficient even in food grains production. The agricultural sector entirely depended on rain for irrigation. As and when the monsoon or winter rain failed the country faced a drought.

Indian industries also did not develop. The level of industrial activity was very low.

A big proportion of industries were concentrated in a few cities. For example, the industrial development took place around Calcutta and Bombay. These were the places of plantation (Tea plantation around Calcutta and cotton textile around Bombay). In case a country has a very low per capita income it leads to a vicious circle i.e. low rate of saving, low rate of investment, low production and low per capita income. India fad this condition at the time of independence. Due to a very low level of per capita income, the rate of saving was also very low. This led to a low level of capital formation (investment). Thus, industry stagnated.

Whatever, the little industrial development had taken place was lopsided. Capital goods sector was underdeveloped. The composition of manufacturing output reflects the predominance' of consumer goods industries vis--+is producer goods industries. Economy In 1950, the ratio of consumer goods, to producer goods worked out to be 6238. Finally, the industrial pattern in India was marked by low capital intensity. Low capital intensity was reflected not only in consumer goods industries like bakery, cloth, sugar, etc. but also in capital goods industries like iron and steel.

The economic development of a country requires strong infrastructure like banking, insurance. transport. communications, power, etc. These facilities were lacking in India at the time of independence.

Briefly, this was the state of the economy just before the start of the planning era in India. In order to get rid of poverty, the first priority was to develop agriculture and industry, which in tum require as well as help in the development of the infrastructure like transport, communication, banking and trade. Agriculture had to be developed fast as it provides raw material for industry as well as food for the population. Similarly, industrial growth provides sustainable development of the economy. All this helps in raising the per capita income. In the industrial development, it was required to develop both small-scale industries as well as heavy industries. In the long run, heavy industries produce capital goods and help in further industrialization. Thus, a balance has to be struck in the development of both.

Along with agriculture and industry, there was also a need to develop transport, power, banking, communication and other sectors of a modem economy. In view of the need for a balanced approach to the development of the economy, India opted for a planned economy and the First Five Year Plan started in April 1951.

Periodization of the Indian Economy

The previous section discussed the Indian economy at the time of Independence. The country kept moving forward on the path of socialistic growth with emphasis on industrialization. Agriculture was also given equal importance as the country wanted to be self-sufficient in food availability. The two wars fought by the country in 1960s led to the diversification of resources towards defense which for the first decade after independence was not given priority. The Green Revolution initiated in the first half of 1960s started reaping benefits for the country by the end of the decade. Public Sector Units were entrusted with the work of providing infrastructure and the private sector industries were limited to consumer goods industry. In the seventies when the world was reeling under the two oil crisis, India managed to have a positive balance of payment account for the first time. The second crisis was not countered well and therefore the country had to approach the International Monetary Fund for its first major structural loan. The government changed its policy from pro-socialist to pro-market. Reforms were introduced in the economy, but not to the degree to what International Monetary Fund expected from the country. In 1984, with the change in the central leadership, there were major reforms introduced to reduce the role of the government in the economy. However, there were frequent changes in the leadership at the centre towards the end of

the eighties which de-stabilised the economy. The second major loan was taken from the IMF which forced the government to expediate the reforms. The New Economic Policy of 1991 changed the face of the economy with the private sector taking the lead. In the past twenty years, there is a re-think with regards to the policies as pro-capitalist policies have led to more inequalities in the society.

5.2 Poverty

Poverty is often defined in terms of income levels of a set of population. The income criteria are preferred as an indicator of poverty as it is easy to establish the income earned by a person or a household. A number of other indicators can be added to these measurements based on their money value to arrive at a comprehensive measurement of poverty. Money values denote objective standards of poverty measurement. Let us look into some poverty concepts available in the literature. Poverty refers to different forms of deprivation that can be expressed in a variety of terms (i.e., income, basic needs, human capabilities).

Per Capita Income Concept

Per capita income can be used as a measure of household welfare. A threshold level of income is used to differentiate the poor from the non-poor. There are three deficiencies with this approach. First, the level of income of a household may vary considerably during the course of a year under study. Second, income of households during a particular year may not be representative income over an extended number of years. Third, the self-employed and informal sector may pose a problem as households may not report their true income for fear of being taxed.

In addition to the above, there are certain other limitations associated with the income indicators of poverty particularly in the context of price and commodity differentials, the exclusion of non-cash and "free" items (such as publicly provided goods and services), and the omission of other factors, such as time required to obtain a commodity. In spite of these limitations, income indicators continue 'to be the most widely used means of measuring poverty, partly because of the relative abundance of data and partly because of its simplicity.

Basic Needs Concept

This approach measures welfare of individuals or households on the basis of certain basic needs such as food, clothing, housing, education and simple medical treatment. The basic needs concept of poverty defines poverty as the deprivation of requirements, mainly material for meeting basic human needs. The poverty measurement based on this approach includes access to such necessities as food, shelter, schooling, health services, potable water and sanitation facilities employment opportunities, and even touches on opportunities for community participation. Inclusion of these indicators increases the magnitude and scope of poverty estimates.

The advantage of the basic needs approach over the per capita income approach is that they measure goods and services directly in terms of human welfare. For example, a rise in housing or essential transport costs would be counted as a decline in well-being using basic needs indicators, while per capita GDP would record this as an increase. There are problems in adding up or aggregating the consequences of decline in wellbeing as a result of increase in transport costs or healthcare facilities. Cross-country comparisons also have to be done using this data very carefully.

Food Ratio Concept

'The Engel coefficient, derived from the Engel curve proposes that the ratio of food to non-food expenditure could serve as a useful welfare indicator. Studies have shown that households with higher levels of income usually spend a smaller fraction of their total income on food while the reverse applies to households with lower incomes. It is also noted that the ratio of food to non-food expenditure increases with family size. This approach, however, needs to be qualified by the findings that the poorest households in developing countries do not necessarily spend a higher fraction of their budget on food items.

Per Capita Food Consumption

This approach hinges directly on a household's propensity to consume food items. In this approach welfare is measured strictly in terms of per capita food consumption. An advantage of this approach is that data requirements for poverty estimation under this approach are limited. A serious weakness of this approach, however, is that non-food consumption items, such as clothing and shelter, are ignored.

Calories Concept

This definition of poverty focuses on calorie intake instead of expenditure on food items and therefore is based on nutritional requirements of human beings. Once there is an agreement on the acceptable calorie intake, the measure allows for comparisons across time and space. This concept is based on the premise that every individual must satisfy certain basic nutritional requirements for survival. A basket of goods is selected in such a way as to maximize one's nutrient intake at the lowest possible cost. The market cost of the selected basket is then derived and the monetary value of purchasing the selected basket of basic food is calculated. Households unable to meet the cost of obtaining the basket of food items are categorized as critically poor, or indigent, underprivileged and deprived. The market cost of the basic food basket represents the lower limit of poverty and is the critical poverty line. 'This method, like the per capita food consumption concept mentioned above, ignores non-food requirements of households.

Medical Data Concept

Medical indicators and data on nutrition can also be used as an indicator of welfare. This approach is especially important when the focus of the study is on young children. This approach can however be misleading because although health status is strongly correlated to household welfare, it is not identical with it. Under-nutrition of children in a household, leading to low weight and height for age, and low birthweight may be an indicator of inequality in the household rather than of the incapacity of the household to provide adequate needs of all its members.

Per Adult Equivalence Consumption

This approach to defining poverty uses total consumption expenditure, adjusted for household equivalent scales, as a measure of household welfare. Equivalent scale control for differences in household composition based on age and gender. 'This definition of poverty is particularly attractive, because it systematically includes the nutritional requirements appropriate to the respective members of the household, that is, it allows the poverty criterion to be household specific.

Measurement of Poverty

The approach to study the population in poverty is based on the perceived causes of poverty based on various types of deprivations. These can be in the realm of physiological needs, economic and sociological needs. These needs are mostly interrelated and can also be termed as the vicious circle of poverty. People are poor because they lack income, food, clothing and shelter and they cannot improve their skills and income earning capacity as they lack the essential needs for survival. The income and basic needs concepts of poverty focus on physiological deprivations. However, the concept of poverty needs to be wider to include all other deprivations. Accordingly, it is important to focus on increasing the income/consumption of the poor and their attainment of basic needs, such as health and education. 2.4.1 Approaches t

Measure Poverty

There has been a lot of research on poverty in the past five decades. Various measures based on income levels, food consumption, expenditure data and largescale surveys are used to measure the percentage of population in a country who can be identified as poor. People who live below a specified minimum level of real income can be characterized as living in absolute poverty. The World Bank uses both food and non-food expenditure for constructing 'poverty line'. Food requirements are derived based on nutritional requirements set by th'e indigence line, while non-food expenditures are set on the basis of a relative measure, namely, the average non-food expenditure of the poorest 40% of the population. The Indian government conducts large-scale sample surveys which are done by the National Sample Survey Organization (NSSO) to collect information on consumption expenditure. The population surveyed is divided into expenditure-based groups to study their calorific consumption.

The Poverty Line

The poverty line is a monetary measure of the minimum consumption of goods and services that a household should obtain in order to ensure that its basic needs are adequately met. The monetary measure of US$ 1 per day is used to make global comparison of population living below the poverty line. The poverty line, therefore, represents a minimum budget that a household should spend over a defined period if it is to meet its basic food and non-food requirements. In India the poverty line is defined on the basis of calorie intake of a person. The calorie intake has been placed at 2250 calories per capita per day in urban areas and 2400 calories per person per day in rural

areas. In Section 2.6 we will give details of the empirical evidence of the head count measure of poverty in India.

The Poverty Gap

The poverty gap is the average of the differences between the income of each individual poor and the poverty line. Poverty gap measures the total amount of income necessary to raise everyone who is below the poverty line up to that line. To put it in a simple manner, the total poverty gap can be considered as the amount of money per day it would take to bring every poor person in an economy up to our defined minimum income standards.

Human Capability

The human capability approach, developed by Amartya Sen, attempts to measure poverty in terms of outcomes or "ends". This approach defines poverty as the absence of basic human capabilities to function at a minimally acceptable level within a society. An emphasis is placed on people's abilities and opportunities to enjoy long,, healthy lives, to be literate, and to participate freely in their society. The capability indicators generally used are: life expectancy, literacy rates, malnutrition, and housing. The capability indicators measure well-being in terms of final outcomes rather than the proxies (such as income, consumption and nutrition) for those outcomes.

Availability of national level data on several capabilities indicators has made it possible to estimate poverty level through capabilities approach. The United Nations Development Programme (UNDP) regularly brings out the Human Development

Report that provides comparative analysis on global trends in economic and social development. The Planning Commission of India has also initiated a process to bring out national and state level reports on similar lines. Broadly, the capability indicators used by the UNDP and the Planning Commission of India can be grouped as the capability to meet the basic needs, self-esteem and the ability to choose. Human Development Index

This is a composite index based on per capita GNP and the level of educational attainment and life expectancy of a population. A series has been generated by the UNDP with the basic index and data are now regularly published on the performance of countries over time. The UNDP brings out an annual Human Development Report, which covers a number of indicators, and countries are ranked on the basis of an index.

Poverty Indicators

The data sources used for measuring poverty are a study of income distribution, disaggregation of other indicators by subgroups and time-use studies. Various studies use all of the following or a few of these indicators to measure the extent of poverty levels in a country.

1) Proportion of population below minimum level of dietary energy consumption(indigent)

2) Poverty gap ratio (incidence multiplied by depth of poverty)

3) Share of poorest quintile in national consumption

4) Prevalence of underweight children (under five years of age)

5) Proportion of population below $1 per day (PPP-values)

Most of the national governments conduct sample surveys to implement poverty alleviation programmes. The World Bank has conducted several studies called the Living Standards Measurement Survey (LSMS). Information on the poverty levels of specific groups can be arrived at by disaggregating poverty indicators based on gender, caste, age, race and location. Similarly, time-use data can be used to study sub-groups of population in terms of the economic value of their work (i.e., paid or unpaid), types of activities performed, and intensity of activities. This data is often used for measuring gender equity and intra-household divisions of labour.

Poverty Estimates

Globally, the decade of 1990s is considered a decade of jobless growth, which mean economic growth has taken place, but employment growth has stagnated. This has forced a large number of people to stay unemployed or take up low paying jobs in Development: Some Hard Facts the unorganized sectors. We have been witnessing a paradox of poverty with growth.

This brings into focus the need for effective policies for equitable distribution of national wealth so that various kinds of deprivations faced by people can be removed. The strategy of removing poverty has to be a comprehensive one and should not be restricted to taking note of only some of its more visible features.

In recent decades, a lot of literature on poverty has emerged from all the countries. Developed countries have been trying to tackle the issue of poverty in their economies. Though the extent of poverty is not the same as in the developing countries, there are pockets of poverty and deprivation in developed countries as well. The poverty levels are extremely high and endemic in the continent of Africa which appears to have faced decline in growth in the past two decades. South Asia also has vast sections of population in absolute poverty. In recent years, it has been observed that large sections of people in developing countries are facing increased joblessness, lack of health care facilities and food security. Malnutrition, illiteracy and lack of livelihood appear to have become crucial issues to resolve the problem of deprivation and poverty.

Poverty and Social Conflict

The rise in inequality and the stark variation in living standards of the rich and the poor globally have led to an increase in social tensions in societies. As a result, a large number of the poor are getting attracted to political movements, which in their perception and understanding can improve their economic condition. In India, it has been observed that large territories are under the control of Naxalites who are organizing people for achieving economic equality with the rest of the society. This is further made complex due to caste differentiation where economic and social mobility is restricted in our social system.

Poverty and Vulnerability

It has been observed that poor people are vulnerable to a number of discriminations. Vulnerability creates impediment in the implementation of various development programs. Some groups may be at risk of becoming poor because of inherent vulnerabilities (i.e., different types of discrimination based on class, gender, caste, ethnicity, or factors such as disability, region of residence and family configuration). Furthermore, certain combinations of vulnerability may be strongly correlated with poverty, such as female-headed households or families living in remote and isolated mountainous regions or some castes from specific occupational background. Such correlations between vulnerabilities and poverty make it necessary to pay special attention to these segments of population.

Poverty and Exclusion

The issue of exclusion is varied as there can be social exclusion as well as economic exclusion. In several situations, the two types of exclusion are also directly interrelated. Exclusion based on caste, whatever economic group you belong to, would imply social exclusion. More specifically, social exclusion refers to issues of participation, empowerment and social rights. However, the inter-related nature of economic and social exclusion in India would mean that some castes are both economically and socially excluded from the process of development. Because of a vast range of deprivations, certain castes have been restricted to their traditional occupations or to other low wage unskilled work. For policy makers, it is important to go beyond the narrow definition of poverty based on income indicators only and take note of social exclusion too.

5.3 Economic Inequality

Global income inequality is probably greater than it has ever been in human history. The economic inequality, largely, viewed as comprising all forms of disparities in the distribution of economic assets and income. There is a debate about whether the income inequality is getting worse or getting better. Currently, the richest 1 per cent of people in the world receives as much as the bottom 57per cent. The ratio between the average income of the top 5 per cent in the world to the bottom 5 per cent increased from 78:1 in 1988 to 114:1 in 1993 (Milanovic1999). One pole represents the 2.4 billion people whose mean income is less than $1000 year and includes people living in India, Indonesia and rural China.

With 42 per cent of the world's population, this group received just 9 per cent of the world Purchasing Power Parity (PPP) income. The other pole is the group of500 million people whose income exceeds $11,500. This group includes the US, Japan, Germany, France and the UK. Combined, they account for 13 per cent of the world's population, yet garner 45 per cent of the world PPP income. The gap between these two poles is so large that it comprises the major

component of the world's income inequality. The richest 25 per cent of the world's population receives 75 per cent of the world's income, even when adjusting for purchasing power parity. The poorest 75 per cent of the population share just 25 per cent. This occurs because a large proportion of the world's population lives in the poorest countries, and within the poorest regions of those countries, particularly in the rural areas of China, rural and urban India and Africa.

Economic growth that does not lead to sharp and sustained reductions in poverty may create more problems than it solves. Similarly, if rapid growth is achieved at the expense of a worsening in the distribution of resources, it ultimately becomes unsustainable, since it engenders social tensions. Let us examine the degree of inequality in India. Both the United Nations (UN) and the Central Intelligence Agency (CIA) have made lists of countries by income inequality metrics.

Causes of Economic Inequality

The income distribution pattern shows that there are glaring inequalities in India.

The main causes of income inequality in India are as follows.

i***) Differential Regional Growth***: the post reform period is characterized by widening regional inequality. Regional disparity is the major reason for income inequality. The economic disparity has a geographical facet. A large majority of poor people live in backward regions/states of the country. The rich are more in percentage in the advanced states and regions. There is also intra state income inequality. But that income inequality is still sharper in poor states. It is because the advanced states grow rapidly. They have performed well, both in agriculture and industries. Their per capita income also rises very fast. On the contrary the poor states lag behind. Due to slow economic growth, the poor states continue to be inhabited by poor people with low per capita income. Statistical convergence among states in terms of inequality, poverty, and real mean consumption is weak.

ii) ***Unequal Asset Distribution***: income flows from wealth. Assets like land, cattle, labour, training, education, and shares represent the wealth of households. Asset distribution is very uneven, both in rural and urban areas of India. Few people are land-owners, but a majority are land tillers. Therefore, income distribution is highly skewed. Asset formation in different regions has been very asymmetric. The accumulated assets pass on from generation to generation. This inequality in wealth enables few people to get income in the form of rent, interest, and profit. But the majority of people in the villages and urban areas do not possess any income generating assets. Private ownership of property has no limit. It is the cause of the concentration of economic power.

iii) ***Technological Dualism***. There is technological dualism in India. Very advanced technology, high technology, and nano technology are proudly adopted in different sectors and industries. But the old bullock cart and hand pulled rickshaw are widely used in different parts of India. High tech users maintain their high economic status, while the agricultural workers toil in the field with primitive technology and drudgery–ridden practices. As a result of the rise in technological dualism, income inequality increases.

iv***) Educational Disparity***: the educational system in the country is inefficient and defective. It does not help in skill formation of the weaker section. It is not effective enough to build human capital. It also discriminates against the poor. The high dropout rate is associated with high push out rates in primary schools in remote villages. There are two types of education through English medium schooling, and education through the medium of regional languages. The former education is very expensive. It is an investment which is not affordable by the majority of the people. The latter is an expenditure for households. The poor villagers and labour class consider education, and, particularly, a girl's education as wasteful, having no return. There is inequality in training and skill building.

v) Inadequate Welfare: Measures: the problem of unemployment is becoming very severe. The country is adopting capital intensive technology in the name of the modernization process. Welfare measures of the government are treated as relief measures. This promotes a dole culture which maintains inequality. Welfare measures are not adequate for the lower class and to eradicate inequality. They do not help to create jobs or provide training in skills among the deprived classes.

vi) ***Inappropriate Government Policy***: the policy of the government lacks any perspective. It does not discourage the profit–seeking business class and rent-seeking groups in their habit of accumulating wealth. The tax authority is ineffective in curbing this trend. The credit policy and the laws governing inheritance are also defective. The government needs to follow appropriate

income–policy, which keeps the ratio between the highest income and lowest income at a socially acceptable figure. The government's top-down approach to development is the main reason for the low trickle-down effect. Rising prices reduce the purchasing power of poor people. The poor are left with nothing to save and reinvest and are also not able to provide education to their children. The poor fall into a vicious circle, so, the rich becomes richer, and the poor get poorer.

vii) ***Lack of Skills***: unskilled labour in India is mainly engaged in the manufacturing and the agricultural sector. The daily wages offered to the laborer's in eastern India is substantially lower compared to what is offered in the northern parts of India. The agro-based industries are not growing in India. The average income of an agriculturalist in Punjab or Haryana is more than that of any state. The privatization process in India is accompanied with lucrative salaries for the few, and increases in the price index which reduces the standard of living of the majority. Employment opportunities are shrinking. The real income of the majority in the rural areas is falling.

viii) ***Growth of the Informal Sector***: inequality arises out of the differences in the capabilities and ownership of assets. There is growth of the informal sector in India. The informal sector is unregistered, unregulated, and unprotected. India's labour force is about 390 million. Out of this, only 7per cent work on regular salaries. About half are unionized. During the1990s, the unregistered workforce increased from 89 per cent to 93 percent. The informal economy, comprise 60 per cent of net domestic product,68 per cent of income, 60 per cent of savings, 31 per cent of agricultural exports, and, even 41 per cent of manufactured exports. However, the informal sector is viewed as a shock absorber, but it has become the source of exploitation, too. Exploitation of women and children is very common in this sector.

ix***) Level of Corruption***: corruption is one of the important causes of inequality. India suffers from high levels of corruption in different spheres. People misuse their office and power to make money and assets by illegal means. There is less punishment for larger corruption. The legal procedure takes a Inequality very long time to punish wrongdoing. Gradually, illegal activities are finding permissiveness. Therefore, illegal accumulation of money in one generation results in wealth for succeeding generations. Thus, inequality of income and wealth prevails in the long run.

5.4 Poverty Alleviation Programs

The developmental strategies in independent India have had always an anti-poverty thrust. The Government, plan after plan, laid emphasis on removal of poverty. During the First Five Year Plan the Community Development Programme (CDP) was launched with the belief that the overall development of rural India could be brought about only with the participation and initiative of the people backed by technical and other services necessary for securing the best from such initiative and self-help. During the period of the Second Five Year Plan an effort was, made to decentralize the power to the representatives of the people at the district, block and village levels with an objective to mobilize people's support to the rural development programs. The Second Five Year Plan also recognized that benefits of economic development must accrue more and more to the relatively less privileged classes of the society. The Third Five Year Plan also emphasized the need for a sizable increase in national income and wealth. This led, in the early sixties, to the formulation of a number of programmes such as Intensive' Agricultural Development Programme, High Yielding Variety Programme, etc., which were designed to accelerate agricultural production in selected regions that were naturally endowed with good soil and irrigation facilities. These programmes could not improve the lot of rural people and the problem continued to evade solution. On the other hand, unemployment and inequalities in wealth and income have continuously increased despite phenomenal increase in agricultural production.

In all the above plans and programmes the accent was on overall growth, and not on 4nti-Poverty Progammes the removal of poverty. The attempts were too generalized, and the benefits were cornered off by the better off sections and better endowed areas. During the Fourth Five Year Plan the policy makers realized that unless a direct attack on poverty is launched by identification of the members of the target group and aiding them in terms of credit, inputs, subsidy and facilities for marketing, etc., the developmental efforts are likely to bypass the poor. As a result, several poverty alleviation programs and new institutions were brought into existence to safeguard the needs the rural poor. They included Small Farmer Development Agency (SFDA), Marginal Farmer and Agricultural Development Agency (MFA & DA), and Land Ceiling Acts, etc.

During Fifth Plan period priority was given not only to the target group-oriented programs but' also to the area-based programmes, such as Drought Prone Area Program (DPAP), Command Area Development Programme (CADP), Hill Area Development Programme (HADP), Minimum Needs

Programme (MNP), 20-Point Economic Programme, etc. During the sixth and seventh plan periods, asset and wage-oriented programmes received top priority. Most important of them are Integrated Rural Development Programme (IRDP), Food for Work Programme (FFWP), National Rural Employment Programme (.NREP), Rural Landless Employment Guarantee Programme (RLEGP), Jawahar Rojgar Yojana (JRY). The approach to the Eighth plan proposes a widening and sharpening of these programs. In the next section, we will discuss the objectives underlying some of the above-mentioned programmes plan wise.

Some of the major programs adopted in the seventies which continued further and were quite successful are discussed in the following section.

Integrated Rural Development Programme (IRDP)

IRDP introduced in 1979 1s government's major anti-poverty programme today. IRDP alms to enable the selected families to cross the poverty line through a strategy of productive assets creation in the primary, secondary and tertiary sector. It produces ten per cent assistance to beneficiaries through subsidy and credit. The Programme provides for selection of six hundred beneficiaries per year per block.

The extent of subsidy 1s 25 per cent for small farmers, 33 5 per cent for marginal farmers, agricultural laborer's, and artisans, and 50 per cent for tribal families, Thirty Per Cent of assisted families should belong to scheduled caste and scheduled tribes. The p~ogramme1 s bang implemented by District Rural Development *gentles (DRDAs) headed by district officer, assisted by block development officers and village level workers

The aim of lRDP during the sixth plan, was to benefit 15 million families by selecting 3,000 families. In each block and the total outlay for the block was INR 35 lakh. In view of the interstate variations and disparities in the incidence of poverty,

the financial allocation and taxation of targets for assisting the families. In the Seventh Plan were related to the incidence of poverty In the states The ultimate emphasis of lRDP is not on providing just some kind of assistance and achieving the target of an impressive number of beneficiaries but on providing substantial assistance or productive assets to the identified participants which should increase their Incomes to a significant extent so that they cross, once and for alI, the poverty line.

Training Rural Youth for Self-Employment (TRYSEM)

TRYSEM was introduced as an allied programme of IRDP In 1979 itself. The objective of TRYSEM is to provide technical skills to rural youth from families below the poverty line to enable them to take up self-employment in agriculture and allied activities, industries, services and business activities. The group comprises rural youth between 18 to 35 of years from families below the poverty line. A minimum of 30 per cent of trained youth should belong to scheduled castes and scheduled tribes and a minimum of 33.5 per cent of youth trained should be women.

5.5 National Rural Employment Programme (NREP)

The rationale behind rural employment programmes such as NREP or Jawahar Rojgar Yojna (JKY) is.

1. to spread the employment effect widely and more evenly than in the past;
2. to promote labour intensive technology in preference to capital intensive technology,
3. to create durable assets and provide an Infrastructure for rural development;
4. to utilize the surplus food grains tor the creation of community assets;
5. to create gainful employment for the unemployed and under-employed who reside in the rural areas;
6. to give a guarantee of employment to the poor,
7. to Increase the consumption levels and nutritional intake of the poor; and
8. to bring social change in the village community in terms of meeting social obligations, social mobility etc.

In the implementation process of rural employment policies particularly the Food for Work Programme, defects and shortcoming were noticed by the Government. It was therefore, suitably modified, restructured, and renamed as NREP ill 1980. The programme became a part of Sixth and Seventh Five Year Plans with a view to generate additional employment, to create durable community assets and improve nutritional status and living conditions of the poor.

Rural Landless Employment Guarantee Programme (RLEGP)

RLEGP was introduced in 1983 more or less on the same lines as NREP. Its objective 1s to improve and expand employment opportunities with a view to provide guarantee of employment to at least one member of every rural landless labour household upto hundred days a year. It is hundred per cent government funded programme. In allocation of funds, fifty per cent weightage is now given to the number of agricultural workers, manual farmers and 50 per cent weightage is given to the incidence of rural poverty.

Through all these programmes, the government has been trying to eliminate poverty and bring about rural development. Strategy underlying all the government policies has been to accelerate economic growth, increase rural public works, agriculture growth, land reforms, rural industralisation, provision of common services and population control.

Jawahar Rojgar Yojana

The government of India launched another major employment programme called JRY in 1989. The primary objective of this programme is to generate additional gainful employment for the unemployed and underemployed persons, both men and women in the rural areas. While creating employment opportunities under this programme, such assets are created which can improve the overall quality of life the rural areas and provide benefits to the poverty groups. The works can be taken up and executed during any part of the year whenever the need for generating employment is felt. The people below the poverty line, who are willing to work will be the target group of the programme. Preference is given under the programme to SC & ST and freed bonded labourers. Out of the total employment generated under the programme, 30 per cent share of employment should go to the women. As the JRY is centrally sponsored scheme, the Government of India provides 80 percent of the total earmarked funds. The state governments have to provide 20 per cent of the funds as a matching grant. The state government allocates the JRY funds to the District Rural Development Agencies Zilla Parishads. The DRDAs/ZPs in turn allocate the resources to the village panchayats on the basis of total population in general and SC & ST population in particular. The village panchayat is free to choose any item of works which is identified by it in consultation with the village assembly. As far as possible, preference should be given to such items of works as land development, social forestry, construction of houses, million wells, solid and water conservation works, construction of village tanks, construction of rural link roads, construction of panchayat ghars etc. which create economically productive assets. The village committee, which is appointed by the village panchayat is to supervise and monitor the programme.

Summary

India has evolved in the last seventy odd years from a country of snake charmers and abject poverty to a country full of potential and opportunities. The shift from people led economy to market led economy has witnessed a higher economic growth rate. This increase in the GDP growth rate is commendable but the impediment in this glory is the rising inequality. As per the SDG targets, the emphasis has shifted from monetary poverty to Multidimensional Poverty which is based on Alkire-Foster Methodology. Bihar ranks at the top with 50 percent of the population showing some signs of poverty. In this chapter we have discussed the various measures of poverty and also the anti-poverty programs launched by the government. The current status of the country shows that there has to be a multidimensional approach to tackling this problem.

Keywords

Exclusion: Economic exclusion refers to denial of access to economic opportunities and social exclusion refers to exclusion from of participation, empowerment and social rights.

Human Development: The index used to rank countries or regions by Index (HDI) their level of human development. It also indicates whether a country or region is developed, developing, or

underdeveloped based on 1) life expectancy at birth; 2) knowledge and education; 3) and, standard of living.

Inequality: Inequality refers to disparity in a set of population in respect to their material (cash or kind) possessions.

Poverty: It refers to lack of access to minimum standard of living in society.

Poverty Gap: It is the average of the differences between the income of each individual poor and the poverty line. It measures the total amount of income necessary to raise everyone who is below the poverty line up to that line.

Poverty Line: The poverty line is a monetary measure of the minimum consumption of goods and services that a household should obtain in order to ensure that its basic needs are adequately met.

Purchasing Power : Purchasing power refers to the value of currency Parity (PPP) expressed in goods and services that one unit of money can buy, whereas purchasing power parity (PPP) refers to an estimation of exchange rate between countries based on their currency's purchasing power. The purchasing power parity theory uses the long term equilibrium exchange rate of two currencies to equalize their purchasing power.

Social Conflict: The rise in inequality and the stark variation in living standards of the rich and the poor globally have led to an increase in social tensions in societies. As a result, a large number of the poor are getting attracted to political movements, which in their perception and understanding can improve their economic condition. This anger can also be misdirected into socially unacceptable direction.

Technological Dualism : Hans Singer (1970) introduced the concept of international technological dualism, by which he meant essentially unequal developments in the area of science and technology, between rich and poor countries

Self Assessment

1. How much was the per capita food availability in 1970?

A. 144 kg
B. 171 kg
C. 44 kg
D. 71 kg

2. What is the current per capita food grain availability?

A. 178
B. 169
C. 177
D. 189

3. Who was the economist who helped to frame the Bombay plan?

A. M N Roy
B. John Mathai
C. Ram Manohar Lohiya
D. D N Gadgil

4. The ………………program was popularly called Green Revolution?

A. Integrated Agriculture Development Program
B. Food grain sustainability program
C. Food grain buffer stock program
D. None of the above

5. Did the EXIM policy of 1992 eliminate licensing?
A. True
B. False

6. Which of the following is not considered as a social indicator of poverty?
A. Illiteracy
B. Less availability of travel facilities
C. Less opportunities of job
D. Lack of health facilities

7. Which state has the highest incidence of poverty?
A. West Bengal
B. Uttar Pradesh
C. Bihar
D. Madhya Pradesh

8. Why is the calorie requirement more to qualify as poor in rural areas than in urban areas?
A. Rural people have more diet
B. Rural people perform more manual labour
C. Rural people are more weak
D. All the above

9. Which of the following is not a measure of poverty?
A. Head count ratio
B. Poverty gap index
C. Sen index
D. Gini coefficient

10. What is the calorie requirement in rural areas?
A. 2100 kcal
B. 2250 kcal
C. 2400 kcal
D. 2600 kcal

11. What type of taxation system is followed in India to reduce inequalities?
A. Regressive taxation
B. Progressive taxation
C. Both the above
D. None of the above

12. According to New World Wealth Report, India ranks ……..in the inequality index?
A. First
B. Second
C. Third
D. Fourth

13. Is coefficient of variation a tool of measuring inequality?

A. True
B. False

14. According to economist Branko Milano Vic says: "The question is ……, the answer is not."
A. Difficult
B. Complex
C. Complicated
D. Simple

15. What is the rank of India as per the inequality index?
A. 156
B. 131
C. 129
D. 97

Answers for Self Assessment

1.	B	2.	D	3.	B	4.	A	5.	A
6.	B	7.	C	8.	B	9.	D	10.	C
11.	B	12.	B	13.	A	14.	D	15.	C

Review Questions

1. Explain the evolution of the Indian economy?
2. What are the various measures of poverty?
3. "As the economy grew at a faster rate, inequalities also grew at a faster rate". Explain
4. Evaluate the anti-poverty programs and why did they fail?
5. What are the steps that the government can take to improve the equality status?

Further Readings

Dutt and Sundharam, The Indian Economy, S. Chand & Company

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Unit 06: Unemployment in India

CONTENTS

Objectives

Introduction

6.1 Meaning of Unemployment

6.2 Nature of Unemployment in India

6.3 Organized and Unorganized Labour

6.4 Labour Reforms in India

6.5 Skill Development in India

Summary

Keywords

Self Assessment

Answers for Self Assessment

Review Questions

Further Readings

Objectives

Examine unemployment in India

Evaluate labour reforms in India

Analyze skill development program in India

Introduction

Expansion of employment opportunities has been an important objective of development planning in India. Although there has been a significant growth in employment opportunities over the years, due to fast rising population, volume of unemployment has been on increase. Unemployment is a normal phenomenon in all market economies irrespective of their level of development. But in an underdeveloped economy due to widespread poverty unemployment is not only painful for the society but also implies wastage of resources, which could have been used more effectively for the development of the economy. Thus, fundamental objective for a developing economy like India is to achieve maximum possible employment.

6.1 Meaning of Unemployment

In simple words a person, who is not gainfully employed in any productive activity, is called unemployed. Unemployment could be voluntary or involuntary. However, there is no scientific treatment with the help of which we can distinguish between voluntary and involuntary unemployment. Generally speaking, people in the age group of 15-59 years are considered to be in the working population of a country and the concept of unemployment is restricted to this group of people only. That is, children and old persons are not included in the definition of unemployment. However, some economists suggest a broader definition. It should include (i) all persons (men, women and children) who are working and (ii) those not working but are searching for work. There may be a section of society, which is not interested, in any gainful employment. There may be some people who may be interested in jobs at wage rates higher than those prevailing in the labour market. Persons falling in above two categories are called voluntarily unemployed.

Involuntary unemployment is characterised by a situation in which people are prepared to work at prevailing wage rate, but they are not able to get employment.

In economics the term "unemployment" refers to only involuntary unemployment and not voluntary employment.

The problem of unemployment in underdeveloped economies is different from that in developed economies. In developed economies generally unemployment takes the form of cyclical unemployment or frictional unemployment. Cyclical unemployment arises due to cyclical movements in economic activities. Frictional unemployment takes place because of shift to a new technology. Thus, cyclical and frictional unemployment are temporary in nature.

On the other hand, the nature of unemployment in underdeveloped economies is basically structural in nature. In an under-developed economy, the demand for labour is less mainly due to agricultural backwardness, undeveloped industries and small size of the service sector. Although the type of unemployment found in underdeveloped economies fits into the definition of involuntary unemployment, is much different from the nature of unemployment found in developed economies.

6.2 Nature of Unemployment in India

In India the problem of unemployment is much more serious than what we find in developed economies. India is an under-developed though a developing economy. It is important to emphasize that unemployment in underdeveloped economy like India is not the result of deficiency in effective demand but in fact a result of shortage of capital equipment and complimentary resources. In India there are various types of unemployment. It takes the forms of rural unemployment and urban unemployment.

Rural Unemployment

Bulk of unemployment in India is found in the rural areas. There are two main aspects of rural unemployment: seasonal and chronic disguised unemployment. Agriculture is the principal occupation in rural India. By nature, agriculture is a seasonal occupation. Therefore, bulk of rural population remains seasonally unemployed in the absence of alternative employment opportunities. It has been estimated that a sizeable portion of population engaged in agriculture remains idle for at least 5-7 months in a year

Second aspect of rural unemployment is chronic disguised unemployment. As per the 1991 census report about two third of the population is engaged in the primary sector (agriculture and allied activities). Working population in agriculture is increasing consistently is absolute terms. While in 1951 over 100 million persons were engaged in agricultural sector, in 1997 their number rose to 237.31 million.

Such a big increase in the working population engaged in this sector without there being a corresponding increase in the area of cultivation, has resulted in overcrowding in agriculture. This is a situation where even if surplus population is withdrawn from agriculture, production will not be affected (provided the remaining labour force works to the best of its abilities). Such a type of situation is described as disguised unemployment or underemployment. In the words of Nurkse, marginal productivity of surplus labour so defined is zero. The main problem in this type of unemployment is that apparently all persons seem to be employed but enough work is not available to all. An example will make this concept of disguised unemployment more clear. Suppose there are 10 persons working on the farm, while less work is available. This work is shared by all persons working on the farms, as there exists no employment opportunity. If some workers are withdrawn from the farm, those remaining at farm are able to accomplish the work and farm output does not get affected, such a situation is called disguised unemployment.

Another aspect of unemployment in rural areas, which needs special attention, is the educated unemployment. With the spread of education in rural areas, there has emerged a class in rural areas also which is literate and in some cases even highly educated. They find themselves misfit in usual agricultural operations. They remain idle in rural areas due to lack of employment opportunities outside rural areas.

Concept of rural unemployment is important to understand the phenomenon of rural poor. Unemployed or underemployed in rural areas constitute mainly the class of rural poor. This class mainly consists of landless labourers and marginal farmers. Therefore, solution for eradication of rural poverty lies in eradication of unemployment.

Urban Unemployment

Whereas most of the unemployment found in rural areas is disguised, most of the unemployment in urban areas is open. Urban unemployment is a source of severe social tensions.

Urban unemployment can be of three types.

First kind of unemployment found in urban areas is of unskilled industrial workers. Such unemployment may be termed as blue-collar unemployment. Although there has been a significant expansion of industrial sector, industrial unemployment has expanded over the years. Various factors have contributed to this phenomenon.

- Increase in economically active population in the country
- Population in urban areas has grown faster than in rural areas, because of migration from rural to urban areas. In addition during off-season, agricultural labour shifts to urban areas to seek employment
- Concentration of industries in urban areas
- Decay of cottage and small-scale industries in rural areas.

Second kind of unemployment found in urban areas is that of educated middle class. Such unemployment may be called white-collar unemployment. There are many causes of educated unemployment. Firstly, whereas there has been a very fast increase in educated population, thanks to fast expansion of educational institutions, technical education and training has lagged behind. Secondly, economic growth has been at a very slow rate. This has resulted in a very inadequate growth of employment opportunities, including engineers, technical personnel along with arts and commerce graduates and post-graduates.

Number of educated unemployed was 2.44 lakh in 1951, which rose to 34.72 lakh in 1980, 47 lakh in 1985 and 68 lakh in 1992. According to Ninth Five Year Plan- "National Sample Surveys shows that over the period 1983 to 1993-94, the proportion of those educated to a level of secondary school or higher among the unemployed persons increased from 47 per cent to 64 per cent. While a high proportion of the literates among unemployed shows un-utilization of scarce resources put in for education of the people, it also indicates a mismatch between the kind of job opportunities that are needed and those available in the job market.

Clearly the increase of literates among the unemployed and further among the literate unemployed, of those with higher level of educational attainment points to the need for skilled jobs rather than the simple low productive manual labour that an illiterate has to resort to for a living".

Thirdly, there are emerging trends of underemployment of those who are seeking job on part-time basis, while they pursue their studies. Such job seekers, if they do not get jobs of their satisfaction, could be called underemployed. There could be many others, who have completed their education, but are not able to get job to the best of their abilities and capacities.

6.3 Organized and Unorganized Labour

"The labourer has to realize that labour is also capital. As soon as labourers are properly educated and organized and they realize their strength, no amount of capital can subdue them. Organized and enlightened labour can dictate its own terms. It is no use vowing vengeance against a party because we are weak. We have to get strong. Strong hearts, enlightened minds and willing hands can brave all odds and remove all obstacles." Mahatma Gandhi

Organised Sector, which is registered with the government is called an organised sector. In this sector, people get assured work, and the employment terms are fixed and regular. A number of acts apply to the enterprises, schools and hospitals covered under the organised sector. Entry into the organised sector is very difficult as proper registration of the entity is required. The sector is regulated and taxed by the government.

6.4 Labour Reforms in India

The central government of India has brought four labour codes into practice. The backdrop for these reforms was the report submitted by the Second National Commission for Labour in 2002. They had reported that India had multitude of labour laws, often overlapping each other. There was a need to bring them under four or five codes at the Central level. To improve ease of compliance and ensure uniformity in labour laws, the NCL recommended the consolidation of

central labour laws into broader groups such as (i) industrial relations, (ii) wages, (iii) social security, (iv) safety, and (v) welfare and working conditions.

In 2019, the Ministry of Labour and Employment introduced four Bills on labour codes to consolidate 29 central laws. These Codes regulate: (i) Wages, (ii) Industrial Relations, (iii) Social Security, and (iv) Occupational Safety, Health and Working Conditions. While the Code on Wages, 2019 has been passed by Parliament, Bills on the other three areas were referred to the Standing Committee on Labour. The Standing Committee submitted its reports on all three Bills. The government has replaced these Bills with new ones in September 2020. This note discusses some of the key issues related to labour laws and the provisions in the four new Codes. This note should be read in conjunction with our Legislative Briefs on the four Codes, and the note on the three new Bills. The codes are shown in Table 6.1.

Table 6.1 Details of Acts that are being subsumed in the Four Codes

Labour Codes	Acts being subsumed
Code on Wages, 2019	• Payment of Wages Act, 1936; • Minimum Wages Act, 1948; • Payment of Bonus Act, 1965; and • Equal Remuneration Act, 1976
Occupational Safety, Health and Working Conditions Code, 2019	• Factories Act, 1948; • Mines Act, 1952; • Dock Workers (Safety, Health and Welfare) Act, 1986; • Building and Other Construction Workers (Regulation of Employment and Conditions of Service) Act, 1996; • Plantations Labour Act, 1951; • Contract Labour (Regulation and Abolition) Act, 1970; • Inter-State Migrant Workmen (Regulation of Employment and Conditions of Service) Act, 1979; • Working Journalist and other Newspaper Employees (Conditions of Service and Miscellaneous Provision) Act, 1955; • Working Journalist (Fixation of Rates of Wages) Act, 1958; • Motor Transport Workers Act, 1961; • Sales Promotion Employees (Condition of Service) Act, 1976; • Beedi and Cigar Workers (Conditions of Employment) Act, 1966; and • Cine-Workers and Cinema Theatre Workers (Regulation of Employment) Act, 1981
Industrial Relations Code, 2019	• Trade Unions Act, 1926; • Industrial Employment (Standing Orders) Act, 1946, and • Industrial Disputes Act, 1947
Code on Social Security, 2019	• Employees' Provident Funds and Miscellaneous Provisions Act, 1952; • Employees' State Insurance Act, 1948; • Employees' Compensation Act, 1923; • Employment Exchanges (Compulsory Notification of Vacancies) Act, 1959; • Maternity Benefit Act, 1961; • Payment of Gratuity Act, 1972; • Cine-workers Welfare Fund Act, 1981; • Building and Other Construction Workers' Welfare Cess Act, 1996; and • Unorganised Workers Social Security Act, 2008

These Labour Reforms will enhance Ease of Doing Business in the country. Employment creation and output of workers will also get enhanced. The benefits of these four Labour Codes will be available to workers of both organized and unorganized sector. Now, Employees' Provident Fund (EPF), Employees' Pension Scheme (EPS) and coverage of all types of medical benefit under Employees' Insurance will be available to all workers.

Key Issues in Labour Reforms

Simplification of Labour Laws

The Second National Commission for Labour very clearly spelt out that there are multitude of labour laws in India. As most of them have been made piecemeal they have certain repetitive provisions and archaic provisions. Many of these laws have become outdated or they overlap with

other laws. There are no common definitions for a lot of terms like wages, worker, establishment and employee. The Codes introduced have made the laws simpler and consolidated the laws.

Facilitating Job Creation while Protecting Work

The 6th Economic Census (2013-14) reported that there were 5.9 crore establishments in India employing 13.1 crore people (of which 72% were self-employed and 28% hired at least one worker). A total of 79% workers were in establishments with less than ten workers. The central challenge to labour regulation is to provide sufficient rights to workers while creating an enabling environment that can facilitate firm output and growth, leading to job creation. Firms should find it easy to adapt to changing business environment and be able to change their output (and employment) levels accordingly. At the same time, workers need protection of assured minimum wages, social security, reduction in job insecurity, health and safety standards, and a mechanism for ensuring collective bargaining rights. This would also require a labour administration that effectively manages conflicts and ensures the enforcement of rights.

Coverage of establishments under labour laws

It has been argued that small firms may be exempted from application of various labour laws in order to reduce the compliance burden on infant industries and to promote their economic growth. However, low numeric thresholds may create adverse incentives for establishments sizes to remain small, in order to avoid complying with labour regulation.13,14 To promote the growth of smaller establishments, some states have amended their labour laws to increase the threshold of their application.

Thresholds for lay-off, closure and retrenchment

The Standing Committee on Labour (2009) recommended that the government consider amendments to include provisions of prior notice, adequate compensation, and other benefits for retrenched workers to balance the need for economic efficiency of businesses. NCL noted that unviable firms should be allowed to close while also ensuring prior scrutiny of grounds of closure and reasons for loss of viability. Therefore, it recommended that the requirement of prior permission may be retained for closure of establishments which hire 300 or more workers and be made applicable to all types of establishments. However, the requirement for prior permission should be removed for lay off and retrenchment. To balance the interests of workers, adequate notice and compensation must be provided, there must be consultation with the representatives of the workers and judicial recourse must be provided against the closure. It also recommended that the government consider a contribution-based unemployment insurance (in establishments covered by the Employees' Provident Fund Act) to take care of retrenched workers or those whose establishments have been closed. The benefit would be payable for one year or till re-employment, whichever is earlier.

6.5 Skill Development in India

Today, India is one of the youngest nations in the world with more than 62% of its population in the working age group (15-59 years), and more than 54% of its total population below 25 years of age. Its population pyramid is expected to bulge across the 1559 age group over the next decade. It is further estimated that the average age of the population in India by 2020 will 1 be 29 years as against 40 years in USA, 46 years in Europe and 47 years in Japan . In fact, during the next 20 years the labour force in the industrialized world is expected to decline by 4%, while in India it will increase by 32%. This poses a formidable challenge and a huge opportunity. To reap this demographic dividend which is expected to last for next 25 years, India needs to equip its workforce with employable skills and knowledge so that they can contribute substantively to the economic growth of the country. Our country presently faces a dual challenge of paucity of highly trained workforce, as well as non-employability of large sections of the conventionally educated youth, who possess little or no job skills. Ministry for Skill Development and Entrepreneurship (earlier Department of Skill Development and Entrepreneurship notified in July 2014) has been set up in November 2014 to give fresh impetus to the Skill India agenda and help create an appropriate ecosystem that facilitates imparting employable skills to its growing workforce over the next few decades. Apart from meeting its own demand, India has the potential to provide skilled workforce to fill the expected shortfall in the ageing developed world.

As India moves progressively towards becoming a global knowledge economy, it must meet the rising aspirations of its youth. This can be partially achieved through focus on advancement of skills that are relevant to the emerging economic environment. The challenge pertains not only to a

huge quantitative expansion of the facilities for skill training, but also to the equally important task of raising their quality. Skill development, however, cannot be viewed in isolation. Skills are germane to, but not always sufficient for securing adequate economic dividends. Skills need to be an integral part of employment and economic growth strategies to spur employability and productivity. Coordination with other national macroeconomic paradigms and growth strategies is therefore critical.

The various Skill Development Programs implemented in India currently are the following.

Pradhan Mantri Kaushal Vikas Yojna

Pradhan Mantri Kaushal Vikas Yojana (PMKVY) was launched in 2015 to encourage and promote skill development in the country by providing free short duration skill training and incentivizing this by providing monetary rewards to youth for skill certification. The overall idea is to boost both industry and employability of youths. During its pilot phase in 2015-16, 19.85 lakh candidates were trained.

After the successful implementation of pilot PMKVY (2015-16), PMKVY 2016-20 was launched by scaling up both in terms of Sector and Geography and by greater alignment with other missions of Government of India like Make in India, Digital India, Swachh Bharat, etc. The Scheme is aligned to Common Cost Norms and has a total budgetary outlay of Rs 12000 Crores.

Objectives of PMKVY 2016-20

Enable and mobilize a large number of youths to take up industry designed quality skill training, become employable and earn their livelihood.

Increase productivity of the existing workforce and align skill training with the actual needs of the country.

Encourage standardization of the Certification process and put in place the foundation for creating a registry of skills.

Benefit 10 million youth over the period of four years (2016- 2020).

Key Components of the Scheme

Short Term Training (STT) - The Short-Term Training imparted at PMKVY Training Centers (TCs) is aimed towards the candidates who are either school/college dropouts or unemployed. Duration of the training varies according to the job role, however, majority of courses range between 200-600 hrs (2 – 6 months). The Training is provided according to the National Skills Qualification Framework (NSQF) with Soft Skills, Entrepreneurship, Financial and Digital Literacy curriculum, a part of the curriculum. Upon successful completion of their assessment and certification, candidates are provided placement assistance by Training Partners (TPs).

Recognition of Prior Learning (RPL) - Individuals with prior learning experience or skills are assessed and certified under the Recognition of Prior Learning (RPL) component of the Scheme. RPL aims to align the competencies of the unregulated workforce of the country to the NSQF. The duration of the training/orientation ranges between 12-80 hrs.

Special Projects - Special Projects component of PMKVY envisages to encourage trainings in special areas and premises of Government bodies, corporates / industry bodies and trainings in special job roles not defined under the available Qualification Packs (QPs)/National Occupational Standards (NOSs). These are the projects which may require some deviation from the terms and conditions of Short-Term Training under PMKVY.

Pradhan Mantri Kaushal Kendra

Under the "Skill India Mission", Ministry of Skill Development and Entrepreneurship (MSDE) has initiated the establishment of state of the art, visible, aspirational model training centres in every district of India. These model training centres are referred to as "Pradhan Mantri Kaushal Kendra" (PMKK).

PMKK are equipped to run industry-driven courses of high quality with focus on employability and create an aspirational value for skill development training. PMKK envisions to transform the short-term training ecosystem from a mandate driven delivery model to a sustainable institutional model.

Investment support is provided for the establishment of PMKKs. NSDC provides the funding support in form of secured loan up to a maximum of INR 70 lakhs per PMKK.

The financial assistance is provided towards capex support (shall not be utilized/provided for creation of immovable property) which includes the following components

i. Training infrastructure including purchase of machinery & equipment

ii. Training aid and other associated items

iii. Internal renovation of the centre

Jan Shikshan Sansthan (JSS)

The Scheme of Jan Shikshan Sansthan (JSS), formerly known as Shramik Vidyapeeth is implemented through a network of NGOs in the country since March 1967. The first Shramik Vidyapeeth was established in Mumbai [Worli] and was commissioned by Bombay City Social Council Education Committee, a voluntary organisation engaged in the field of Adult Education. After the success of the project, the Govt. of India developed a scheme for setting up a network of such institutions in the country in a phased manner.

With the transformation in the economic and social setup over the years, the role and scope of these polyvalent educational institutions have widened manifold. In the changed scenario, the focus of Shramik Vidyapeeth (SVP) was shifted from industrial workers in urban areas to the non-literates, neo-literates, unskilled and unemployed youth particularly from SC/ST/OBC/Minority/Divyang/Women throughout the country especially to underprivileged people in the rural areas. The SVPs were accordingly renamed as Jan Shikshan Sansthan (JSS) w.e.f. year 2000.

The scheme of Jan Shikshan Sansthan was consequently transferred from Ministry of Human Resources Development (MHRD) to Ministry of Skill Development and Entrepreneurship (MSDE) in July 2018.

Objectives

- To improve the occupational skills and technical knowledge of the non/neo literates and persons having rudimentary level of education upto 8th standard and other school dropouts beyond 8th standard i.e. upto class 12th to raise their efficiency, increase productive ability and enhance their livelihood opportunities
- To identify and promote traditional skills in the districts through skilling/upskilling
- To create a pool of master trainers working across the department/agencies of skill development through training/orientation programme
- To collaborate and coordinate with other departments/agencies working in the filed of skill development
- To widen the range of knowledge and understanding of social, economic and political systems and create awareness about the environment
- To Promote national values and to align with national programmes
- To promote self-employment and facilitate to get financial support including loans/ for the target groups through linkage with credit and consortium membership

Vocational Training Programme for Women

Women Training under Ministry of Skill Development & Entrepreneurship takes care of providing skill training to women in the country which aims at stimulating employment opportunities among women of various socio-economic levels and different age groups.

Women's Vocational Training Programme (WVTP) was designed and launched in 1977 to mainstream women into economic activities. This project on women's vocational training was formulated with the assistance of Swedish International Development Authority (SIDA) and the International Labour Organization (ILO) in March, 1977. Under this project, vocational trades were identified that were particularly suitable for women and their implementation planned.

Women's Vocational Training Programme promotes Vocational Training for women for wage-employment in industry, as instructors and also promotes their self-employment.

The Program offers:

Industrial skill training under Craftsmen Training Scheme (CTS)

Instructor skill training under Craft Instructors Training Scheme (CITS)

Course Name
Demand-driven Short-term courses
Special programs for training the Instructors of ITIs
Tailor-made courses as per industry's demand

National Skill Training Institutes(erstwhile National/Regional Vocational Training Institutes) for Women under Women Training, DGT

The vocational training to women, Directorate General of Training, Ministry of Skill Development & Entrepreneurship was implemented through a network of 11 institutes – One National Vocational Training Institute (NVTI) at Noida (1977) and ten Regional Vocational Training Institutes (RVTIs) at Mumbai (1977), Bengaluru (1977), Thiruvananthapuram (1983), Kolkata (1986), Tura (1986), Panipat (1986), Allahabad (1991), Indore (1992), Vadodara (1993), and Jaipur (1994). The Names of these women Institutes have been changed as " National Skill Training Institutes for Women" (NSTIs for Women). These are functioning directly under the control of Central Government. The Skill Training is provided through CTS (Craftsmen Training Scheme) and CITS (Craftsmen Instructor Training Scheme) courses under Vocational Training Programmes.

The NSTIs(W) (erstwhile NVTI/RVTIs) organize NCVT approved skill training programmes under Craftsmen Training Scheme (CTS) and Craft Instructors' Training Scheme (CITS) in areas such as Office Management, Electronics, Secretarial Practice, Architecture, Computer, Dress Making, Cosmetology, Fruits and Vegetables Processing, Desk Top Publishing, Surface Ornamentation Techniques, Fashion Design & Technology, Catering and Hospitality, Sewing Technology, Travel & Tour, Computer Aided Embroidery & Designing, Food and Beverages Service Assistant, Food Production (General), Draughtsman Civil and Interior Decoration & Designing etc. besides Long Term training, Short Term training is also provided in the 18 NSTIs(W) in the above mentioned trades.

A total of 4445 regular seats (2731 CTS+1714 CITS) have been sanctioned in these NSTIs(W) in 2019-20 in various training courses under CTS and CITS. These courses are of one to two years duration and conducted on annual pattern.

Placement support is also provided to the passed out trainees by organizing on Campus Interviews.

Support is also being extended to the trainees to facilitate them for Apprenticeship Training.

Off Campus Short Term training programmes are being conducted by the NSTIs(W).

All NSTIs(W) are registered as Basic Training Provider (BTP) to provide Basic Training for Apprentices.

Rozgar Mela

To give impetus to the employment initiatives in the country, National Skill Development Corporation (NSDC) under the aegis of Ministry of Skill Development & Entrepreneurship (MSDE), Govt. of India has been organizing Rozgar Melas across the nation for providing suitable job opportunities in private sector to the unemployed youth. With initiatives like Rozgar Melas, the Government is ensuring a parallel growth in the private/ industrial sector. There is no end to the potential for industry to flourish across the States with big corporates partnering the government and pledging to invest.

A NSDC Rozgar Mela is a 1/2-day event where several employers and job seekers come together for the purpose of applying and interviewing for jobs. Defined more precisely, a Rozgar Mela is an employment strategy to fast-track the meeting of job seekers and employers. For the execution of Rozgar Melas, NSDC seeks support from the respective Sector Skill Councils (SSCs) & Pradhan Mantri Kaushal Kendras (PMKKs) for sourcing the employers i.e. private companies for the Rozgar Mela. Generally, a Rozgar Mela witnesses the participation on an average of 40-50 employers from 10-12 high economic growth sectors. These sectors are generally identified based on the aspiration of youth & availability of industries in the target State or the nearby areas.

These Rozgar Melas generally cater to the youth in the age group of 18-35 Years with an academic qualification covering 8th/10th/12th Pass, ITI, Diploma, Graduates etc. including the trained and certified candidates conforming to National Skills Qualifications Framework. The jobseekers for the Rozgar Mela are sensitized & mobilized through various channels including Print Advertisement, Bulk SMS, social media & through workshops at College & University Level in & around the districts of the Rozgar Mela.

The Rozgar Melas are generally accompanied by other activities including Counselling Session for the jobseekers & their parents, Kaushal Melas for the registration of youth under fresh skill development training (PMKK/PMKVY), Mudra Loan Facilitation Counters & Skill Exhibition (where SSCs demonstrate the training model, equipment, job roles of their respective sectors). In addition to the NSDC Rozgar Mela, the concerned agencies of NSDC like Sector Skill Councils, Pradhan Mantri Kaushal Kendra, Pradhan Mantri Kaushal Vikas Yojna Training Partners also conduct Rozgar Melas of different scale & magnitude for the youth in the age group of 18-35 years on PAN India basis. From 1st January, 2019 to 31st December, 2019, more than 700 Rojgar Melas have been organised in 28 states/UTs by NSDC, SSCs, PMKKs, PMKVY, fee-based model training partners etc. There have been approx. 2.18 lakh registrations and around 93 thousand candidates have been selected by the private companies in the Rozgar Melas.

Summary

Labour is one of the most exciting factor of production. In the economic theory it holds a special place as it can be varied as per the requirements of the firm and the economy. Unemployment is one problem related to labour as with all the other factors of production causes great economic damage. In emerging economies like India, unemployment poses a threat as the demographic dividend of the country depends on high employment rates. In economics the term "unemployment" refers to only involuntary unemployment and not voluntary employment. In this chapter we looked at the organization of labour as unorganized labour becomes a matter of concern as this labour does not have all the opportunities which are there for the organized labour.

Ministry for Skill Development and Entrepreneurship (earlier Department of Skill Development and Entrepreneurship notified in July 2014) has been set up in November 2014 to give fresh impetus to the Skill India agenda and help create an appropriate ecosystem that facilitates imparting employable skills to its growing workforce over the next few decades. Apart from meeting its own demand, India has the potential to provide skilled workforce to fill the expected shortfall in the ageing developed world.

Keywords

Jan Shikshan Sansthan (JSS): The Scheme of Jan Shikshan Sansthan (JSS), formerly known as Shramik Vidyapeeth is implemented through a network of NGOs in the country since March 1967.

Labour: Labour, also spelled labor, in economics, the general body of wage earners. It is in this sense, for example, that one speaks of "organized labour." In a more special and technical sense, however, labour means any valuable service rendered by a human agent in the production of wealth, other than accumulating and providing capital or assuming the risks that are a normal part of business undertakings.

Pradhan Mantri Kaushal Vikas Yojna: Pradhan Mantri Kaushal Vikas Yojana (PMKVY) was launched in 2015 to encourage and promote skill development in the country by providing free short duration skill training and incentivizing this by providing monetary rewards to youth for skill certification.

Skill Development: Skills development is the process of identifying your skill gaps, and developing and honing these skills. It is important because your skills determine your ability to execute your plans with success.

Self Assessment

1. The employees of LIC will be categorized as

A. Organized labour
B. Unorganized labour
C. Depending on the terms of their employment
D. None of the above

2. Labour falls under which list?

A. Union list

B. State list
C. Concurrent list
D. All the above

3. Why were the four bills on labour introduced?
A. To consolidate the central laws
B. To consolidate the state laws
C. To consolidate both the central and the state laws
D. None of the above

4. The four bills on labour consolidated how may central laws?
A. Twenty-four
B. Twenty-seven
C. Twenty-nine
D. Thirty-one

5. Which of them is not a part of the four bills on labour?
A. Wages
B. Social security
C. Industrial relations
D. Maternity benefits

6. Code of wages of 2019 include how many laws on wages?
A. One
B. Two
C. Three
D. Four

7. Trade Union Act 1926 has been added to which code of labour?
A. Code of wages
B. Industrial relations code
C. Social security code
D. Occupational safety, health and working condition code

8. Payment of gratuity act 1972 has been added to which code?
A. Code of wages
B. Industrial relations code
C. Social security code
D. Occupational safety, health and working condition code

9. The consolidation of the central labour laws was recommended by whom?
A. First National Commission on Labour
B. Second National Commission on Labour
C. Third National Commission on Labour
D. Fourth National Commission on Labour

10. Why did the national commission on labour recommend the consolidation of the central labour laws?
A. To simplify the laws
B. To show the might of the commission
C. The central government recommended it
D. None of the above

11. Did the National Commission on Labour recommend flexibility to the organisations to adjust their workforce as per the economic efficiency?
A. True
B. False

12. As per the Periodic Labour Force Survey Report (2018-19), what percentage of non-agricultural workforce were not eligible for paid leave?
A. 52%
B. 54%
C. 70%

D. 73%

13. A trade union would be given recommendation if it has the support of ……percentage of workers as per the NCL recommendations?

A. 100 percent
B. 50 percent
C. 33 percent
D. 66 percent

14. How many programs have been identified under the Green Skill Development Program?

A. 30
B. 84
C. 253
D. 375

15. Which of the following scheme is for the minority section of the population?

A. Green Skill Development Program
B. Seekho aur Kamao
C. Pradhan Mantri Kaushal Vikas Yojna
D. All the above

Answers for Self Assessment

1.	A	2.	C	3.	A	4.	C	5.	D
6.	D	7.	B	8.	C	9.	B	10.	A
11.	A	12.	B	13.	D	14.	A	15.	B

Review Questions

1. Comment on the labour reforms in India.
2. Has the skill development program of the government contributed in improving the skills of the youth of India? Substantiate your answer.
3. Critically examine the four new labour codes in India.
4. Rising population is the main cause behind unemployment in India. Analyze the statement.
5. What are the various types of unemployment?

Further Readings

A K Sharma, Labour Economics, Anmol Publications Pvt. Ltd.

S Chakraborty, Labour Economics, Himalaya Publishing House Pvt Ltd.

Unit 07: Agriculture Sector

CONTENTS

Objectives
Introduction
7.1 Green Revolution
7.2 The HYV Package
7.3 Impact of Green Revolution
7.4 Rural Development Programs and Poverty Alleviation Programs
7.5 Poverty Alleviation Programs
Summary
Keywords
Self Assessment
Answers for Self Assessment
Review Questions
Further Readings

Objectives

- Discuss Green Revolution program
- Identify the factors affecting the agricultural growth
- Analyze the rural development programs

Introduction

Agriculture is being practiced in the country from Vedic period. There have been continuous changes leading to refinement in all the concerned aspects in phases for better yields. Biodiversity is being used for better plant types with desired characters to have better, yields with resistance to biotic and abiotic factors, needed yield parameters and suitable for specific agro-ecological conditions. Crops are selected on the basis of soil groups like alluvial soils, black soils, red soils, laterite soils, mountain and hill soils, arid and desert soils, saline and alkali soils, peat and organic soils. The soils differ in texture and consistency like sand, loam and heavy soils. They vary in fertility levels comprising of different quantum of, nitrogen, phosphorus, potash, Sulphur, calcium, magnesium, iron, sodium as major elements and boron, manganese, molybdenum, zinc, copper cobalt as microelements. Fertility level is decided looking to the crop to be grown, Soil water holding capacity varies and the irrigation requirement depends upon the crop and soil structure. Better methods have been developed for raising various crops. Crop is protected from diseases, insect-pests and weeds by use of mechanical practices, chemicals and bio-pesticides. Regular researches have resulted in better equipment's for field operations, harvesting and threshing. Now the harvest can be stored in better storage structures quite safely. The post-harvest technology has attracted the attention of cultivators all the times. The technological improvement was influenced by the dynasties of the country.

7.1 Green Revolution

The word "Green Revolution" was coined by William S. Gaud of United States Agency for International Development (USAID) in 1968, for the introduction of new technology and policies implemented in the developing nations with aids from industrialized nations between the 1940s and the 1960s to increase the production and yield of food crops. Many high-yielding varieties

(HYVs) were introduced as part of the Green Revolution to increase agricultural productivity. These genetically improved varieties of wheat and rice were developed by the International Maize and Wheat Improvement Centre (CIMMYT), Mexico, and the International Rice Research Institute (IRRI), Philippines, respectively. The HYVs had 20% more grain than its earlier cultivars and were more responsive to the nitrogen fertilizers. The yield potential doubled due to the incorporation of several traits and specific genes for short stature in HYVs. The incorporation of the gene responsible for photo-insensitivity in rice and wheat enabled cultivation possible throughout the year; regardless of day length of the region, it was cultivated. Furthermore, the reduced cropping period increased the cropping intensity to 2–3 crops per year.

The Green Revolution, which began in the mid-1960s in India is the name given to the first systematic attempt to increase agricultural production, particularly that of food-grains, in India and some other developing countries by applying new technologies of cultivation.

It is based on "biochemical innovations" that include high yielding varieties, chemical fertilizers and pesticides. There are three main components of this approach:

1. An improved technology in the form of new high-yielding varieties (HYVs) of crops:
2. A package of practices which consists of appropriate application of chemical fertilizers, pesticides and irrigation facilities which are necessary for the technology to be effective, and
3. an overall strategy, which includes government policies for the provision and subsidy on inputs, remunerative prices for output and availability of credit.

This has been the broad strategy for agricultural growth followed by India since the mid-1960s.

The Basic Strategy of the Green Revolution

The new policy towards agriculture, which began in the mid-1960s, was a departure from the earlier approach in a number of ways. The main features are summarized below:

a) The government policy was now oriented towards changing the technical conditions of production in agriculture rather than introducing land reforms and other changes in the property relations in the countryside. In so far as institutional changes were part of the policy, they were chiefly in the form of spread of state agricultural extension services in order to spread information and provide access to the new technology, establishment of Agricultural Price Commission (now known as Commission on Agricultural Costs and Prices, CACP) in 1965, establishment of Food Corporation of India (FCI) in the same year and efforts towards ensuring the availability of credit from institutional sources.
b) The new technology consisted essentially of a package of inputs and practices including seeds of high yielding varieties, which responded very favourably to fertilisers, irrigation and pesticides.
c) The emphasis was primarily on increasing the output of food-grains (especially wheat and rice). Other crops such as sugarcane, oilseeds, pulses, coarse cereals, jute and cotton were not a part of this policy.
d) Given the requirement of assured water supply, the new technology was introduced and employed successfully in areas having irrigation facilities. The strategy was, therefore, selective in approach. The focus was on selecting new areas with assured irrigation water or rainfall for the effective application of this package. This combined with the higher yield of new wheat seeds in India, led to a regional concentration of the new HYV technology in the irrigated wheat-growing region of northwest India. This region, comprising the states of Punjab, Haryana and West Uttar Pradesh, became major success stories of the Green Revolution by early 1970s.

e) The new strategy also focused on increasing marketed surplus of food-grains through price support and procurement operations. It meant a focus on those groups of farmers who could produce surplus for sale, over and above their own consumption. Essentially, these were the larger and richer farmers, who had both resources and access to market, which encouraged them to adopt the HYV package. Although the package itself was scale neutral (that is, yields did not vary with the size of the holding), there were two major forms of bias in favour of larger farmers: the need for irrigation and access to institutional credit which were more easily obtained by larger farmers. This bias was also to some extent a conscious policy choice by the government—a policy to favour faster growth in output with a view to attaining self-sufficiency in food-grain production. The government hoped that the effects of this growth would "trickle down" to the rest of the rural population, as against a policy in favour of greater equality within a slower growing agriculture. In other words, gains in productivity rather than better distribution of rural incomes was emphasised.

7.2 The HYV Package

The crucial element in the HYV package was the seed, which was typically a hybrid designed to give much higher yields in response to the use of fertilisers. Some of the other characteristics of these new varieties were: shorter maturing period which enabled double cropping, shorter (dwarf) stems which could withstand damage caused by winds, positive response to fertilisers and larger leaf surfaces to help the process of photosynthesis.

The basic method of creating these seeds is called "hybridisation". This is a process of crossing two strains of the same crop in order to combine desirable characteristics of both the strains. Thus a crop plant with good fertiliser response can be combined with one with strong and short stalk . Hybridisation can create varieties of seeds with much higher yields than those of their parent varieties.

The new wheat seeds introduced in India were developed from two Mexican varieties namely Sonora 64 and Lerma rojo. Indian agricultural scientists evolved four new varieties, which were more suited to local conditions: Kalyan Sona, Sonalika, Safed Lerma and Chhoti Lerma. Kalyan Sona became the leading wheat variety, with the highest observed yields (more than 30 quintals per hectare) although it later became prone to diseases.

The HYV seeds for rice were based on seeds of Taiwanese origin. The main varieties were IR 8 and Jaya, which were released in 1968 with active support from the International Rice Research Institute, the Philippines. But the considerable agro-climatic differences across various rice growing regions made it difficult to adopt uniform varieties across the country. The HYV rice seeds were erratic in their performance in different areas and more vulnerable to pests and diseases when compared to wheat HYV seeds. New hybrid seeds of jowar, bajra and maize were also developed but these were not as effective as HYV wheat seeds.

The HYV seeds were designed to be very responsive to fertilizer intake, and so higher applications of fertilizer were crucial for the success of this technology. This implies that it became necessary to apply greater quantities of chemical fertilizers (nitrate, phosphate and potassium compounds) at the cost of organic matter applications to soil. This has led to inefficiency in the use of fertilizers and at times it becomes uneconomical to apply high doses of fertilizers. Nitrate pollution is already a documented phenomenon as a consequence of the application of high levels of nitrogenous fertilizers.

A similar tendency persists in the use of pesticides. One of the major problems of hybrid varieties of seeds is their greater vulnerability to pests and diseases. There are some traditional means of checking pest incidence through cultural practices (e.g. changing the sowing date, crop rotations, intercropping, etc.). But these are less applicable with HYV seeds than traditional varieties. Though the average use of these pesticides is far below the required levels, lack of judicious use has become a major issue to be reckoned with.

The other crucial element of the HYV package is water. A secure irrigation system is, therefore, an important condition for the success of the strategy. Ever since the Green Revolution started, there has been greater emphasis on groundwater irrigation, through tube-wells in particular. This can be

undertaken by farmers privately (unlike canal irrigation which depends upon government policy and investment), and gives farmers greater flexibility and control over the use of water. Typically, such investment in tube-wells is made by large farmers not only because they have the resources for such investment but also because using tube-wells for a minimum spread of about 10-15 acres gives the best results.

With these four major elements, the HYV package has one very important feature: each of the elements must be applied in correct quantity and at the appropriate time to give the best results. Thus using HYV seeds independent of (or with inadequate amounts of) fertilizers, pesticides or irrigation water will not lead to complete realisation of the yield potential of such varieties. Further, any deviation from the recommended time schedule for sowing and the application of other inputs leads to less than the optimum yield.

One of the effects of Green Revolution was a hike in the cost of cultivation. The adoption of HYV seeds meant using higher levels of inputs, thereby increasing the cost of cultivation per hectare. This was, however, more than offset by a significant increase in the yield of crops, as it has been reported that there has been a decline in the real cost of production (Rs/tonne) in the case of rice and wheat over the last two and half decades.

7.3 Impact of Green Revolution

GR technology in India has made phenomenal impact on agriculture in particular and entire economy in general. It has, however, made both positive as well as negative impacts.

Positive Impacts

On the positive impact front, the GR technology helped to raise the production and productivity of crops, especially wheat and rice, increase cropping intensity, change the cropping pattern from coarse cereals to super cereals and later on to cash crops, including sugarcane and horticultural crops; and solve the problem of food security.

Increase in Production and Productivity of Food Grains

One of the most important impacts of green revolution (GR) was on raising the production and productivity of cereal crops, especially wheat and rice. The cereal production was increased due to three factors:

(i) increase in net area under cultivation;

(ii) growing two or more crops in a year on the same piece of land;

(iii) use of HYV seeds.

The GR resulted in a significant increase in the production of food grains from 72.4 million tons in 1965-66 to 131.9 million tons in 1978-79 establishing India as one of the world's biggest agricultural producers. Per hectare yield of food grains increased from 6.3 quintal per hectare (Q/ha) in 1965-66 to 10.2 Q/ha in 1978-79. Percentage of total food grains area under irrigation also increased from 20.9 in 1965-66 to 28.8 in 1978-79. These productivity increases also enabled India to become an exporter of food grains around that time.

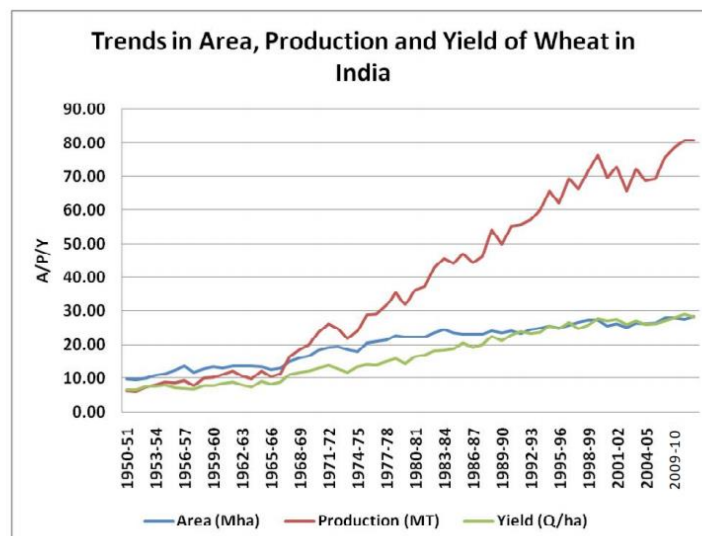

Figure 7.1 shows the trends in area, production and yield of wheat crop in India since 1950-51 to 2009-10. It is evident from the graph that the production of wheat has significantly increased during and after the green revolution period. The production went up from 10.4 million tons (MT) in 1965-66 to 35.5 MT in 1978- 79 and further to 80.7 MT in 2009-10. The spectacular increase in production of wheat was mainly due to massive rise in its per hectare yield which went up from 8.3 Q/ha in 1965-66 to 15.7 Q/ha in 1978-79 and further to 28.3 Q/ha in2009-10. Area under wheat also grew notably during the green and post-green revolution periods as can be seen from the Figure 7.1. However, in the recent years, per hectare yield of wheat grew faster than its area, implying that productivity growth in wheat has contributed more to the wheat production than the increase in area under it. Although production of wheat shows significant rise over the period, it also indicates fluctuations across years.

Area, production and yield of rice (paddy) also increased significantly during the green and post-green revolution periods. The production went up from 30.6 MT in 1965-66 to 53.8 MT in 1978-79 and further to 89.1 MT in 2009-10. The per hectare yield of rice increased from 8.6 Q/ha in 1965-66 to 10.7 Q/ha in 1978-79 and further to 21.3 Q/ha in 2009-10. The per hectare yield of rice grew at a rate much slower than that of wheat. This implies that the GR technology had penetrated more in wheat crop than in the rice crop. Further, the area under rice achieved a relatively slow growth when compared to the area under wheat However, it is important to know that the data on area, production and yield of wheat and rice crops presented in the graphs are all-India aggregates which comprise both the irrigated and the un-irrigated regions. Estimates of growth rate in area, production and yield of two principal cereal crops (wheat and rice) during four periods viz. pre-green revolution period (1950-51 to 1964-65), green revolution period (1967-68 to 1978-79), post-green revolution period (1979-80 to 1990-91) and post-economic reform period (199192 to 2009-10) is presented in Table 7.1. In case of wheat, area recorded the highest growth during the green revolution period (3.3 percent), followed by the pre-green revolution period (2.7 percent); the lowest being in the post-green revolution period and post-reform periods (0.6 to 0.7 percent).

Table 7.1: Compound Annual Growth Rate

Time Periods	Wheat			Rice		
	Area	Production	Yield	Area	Production	Yield
1950-51 to 1964-65 (Pre-GR)	2.7*	4.3*	1.5*	1.5*	4.4*	2.9*
1967-68 to 1978-79 (GR)	3.3*	5.9*	2.5*	0.8*	2.6*	1.7*
1979-80 to 1990-91 (Post-GR)	0.6**	4.2*	3.6*	0.6**	4.3*	3.7*
1991-92 to 2009-10 (Post- reform)	0.7*	1.7*	0.9*	0.1	1.2*	1.1*

Similarly, production of wheat recorded the highest growth in the green revolution period (5.9 percent) followed by the pre-green revolution period (4.3 percent).The growth in wheat production in the post-GR period (4.2 percent) of 1980-91was also not too low but in the post-economic reform period it was the lowest 1.7 percent. In terms of per hectare yield of wheat, however, the post-green revolution years had the highest yield (3.6 percent). Once again, the per-hectare yield was the lowest (0.9 percent) in the post-reform years of 1992-2010. A similar trend is noticed in the per-hectare yield of rice in which the post-GR year of 1980-91 had witnessed the highest growth (3.7 percent). Like in the case of wheat, for rice too there was a steep decline in the per-hectare yield in the postreform years of 1992-2010 (1.1 percent).

Employment Generation

The impact of GR technology on employment generation in agriculture has been contentious. Critiques of Green Revolution argue that increased mechanization of farm practices in the green revolution regions reduced the employment absorption in agriculture. C. H. Hanumantha Rao, for instance, observed that GR technology in terms of 'seeds-fertilizer-irrigation' package had substantial positive impact on employment generation in agriculture but increased use of farm machines such a stractors contributed to a reduction in the employment generated. However, the us of tractor and other modern machines increased the aggregate level of employment by raising cropping intensity, farm productivity and changing cropping pattern. Moreover, farm machines

and equipment also helped generate addition employment in the non-farm activities by way of forward and backward linkages.

In other words, the use of technology and better inputs have created significant employment opportunities in the non-agricultural sectors of manufacturing as well as service sectors. Further, expansion of irrigation (which was considered a precondition for the adoption of GR techniques) has generated more employment and irrigated crops have more agricultural operations as compared to the un-irrigated zones. In fact, the green revolution regions such as Punjab, Haryana and Western Uttar Pradesh experienced one of the major problems of shortage of agricultural labour resulting in the migration of workers from backward and poor agricultural regions to the GR regions for agricultural employment. Thus, the GR technology has created indirect employment opportunities to the agricultural workers of other regions.

Flow of Public/Private Investment in Agriculture

The most important factor behind the success of green revolution in India is availability of assured irrigation. The advent of tube-well technology, especially in the Indo-Gangetic basin, made significant contribution to enhance the per hectare crop yields. The new agricultural strategy required public investment in agricultural infrastructure, including investment in agricultural research, extension, power, roads, irrigation, etc. Government of India made huge public investment in agriculture in the regions where the new strategy was adopted. This investment made favourable impact on accelerating the pace of private investment too in agriculture. Farmers invested in tube-well, tractor & its accessories, electric and diesel pump sets, land levelling & development, etc. The share of mechanical and electrical power in India increased substantially from 39.4 percent in 1971-72 to 86.6 percent in2005-06. The ratio of human labour in the total power consumption in agriculture declined from 15.1 percent in 1971-72 to 8.6 percent in 1991-92 and further to5.8 percent in 2005-06. Similarly, the share of draught animal power decline sharply from 45.3 percent in 1971-72 to 15.6 percent in 1991-92 and further to8 percent in 2005-06. These trends imply that private investment in agriculture after the green revolution significantly increased following the stimulus provided by increased public investment.

Land Saving

Land is a limited resource with competing claims for alternative uses. Due to fast growth of population, urbanization and industrialization, demand for land for nonagricultural purposes has been continuously increasing. Release of land for nonagricultural purposes would be a less contentious issue if requirement of land for agricultural purposes is met through raising the productivity of land and other resources. In this context, GR technology is considered land-saving as it significantly increased the per hectare yield of various agricultural crops. Productivity growth in agriculture has also indirectly saved the forest land as in the absence of increased agricultural output due to GR, more forestland would have been converted into agriculture to meet out the requirement. From this point of view, it is also sometimes argued that the green revolution, instead of having negative impact on environment, has had positive impact on it by way of saving the forestland.

Impact on Rural Non-farm Economy

The green revolution has made significant positive impact on boosting the rural non-farm economy. It has led to sizeable increases in returns to land thereby raising farmers' incomes. Since farmers and agricultural labour comprise a sizeable proportion of rural population, rise in their income due to agricultural development enhances the demand for locally produced goods and services thereby augmenting the employment and income in the non-farm sectors. Moreover, expansion of demand for farm inputs, repairs & maintenance of farm tools and machines transportation and marketing services, agro-processing, etc. generates additional income and employment to the rural households engaged in non-agricultural activities.

Negative Impacts

Green revolution in India has also made a number of negative impacts. Since Green revolution technology is based on the strategy of "betting on the strong" with its inbuilt feature of unequal access and 'unbalanced development of regions', it has created disparities in agricultural development across regions and categories of farms. There was also a tendency of growing intensively two or even three of the somewhat or rice crops without any rotation and with heavy doses of water, fertilizers and pesticides. In the process, it has left adverse effects on soil fertility and quantity/quality of water. We can elaborate more on these negative aspects of Green revolution follows.

Decline in Soil Fertility

GR technology has caused deterioration in soil fertility. As per the Working Group Report on 'Natural Resource Management' (Government of India, 2007), estimated loss to the economy on account of soil degradation during 1980s and1990s ranged from 11 to 26 percent of GDP. Absence of reliable advice and soil testing facilities contributes to the indiscriminate and harmful use of chemicals. Use of Farm Yard Manure and Green Manure has declined due to various reasons like decline in draught animals, change in the cropping pattern from legume crops to rice, wheat, sugarcane and other commercial crops, etc. It is also argued that green revolution technology could not promote crop-diversification but rather encouraged the crop-concentration. A recent Greenpeace India Report on 'Soils Subsidies and Survival,' (2011) observes that "indiscriminate use of chemical fertilizers is murdering our soil and threatening our food security. It is time to move away from them and nurture our soil the ecological way".

Loss of Biodiversity

Biodiversity is necessary for sustaining the rural livelihoods and achieving the food security. But the use of HYV seeds displaced indigenous species and agricultural system that had been built up over generations. This has led to loss of bio-diversity and agricultural genetic resources aggravating the genetic vulnerability of many valuable gene pools.

Depletion of Groundwater Resources

Development of tube-well technology in 1960s is one of the vital factors in bringing the green revolution in the Indo-Gangetic regions. However, the exponential growth of tube-wells in these regions has also been the main reason in the rapid decline of groundwater resources. While groundwater irrigation is preferred on the equity, efficiency, and private investment grounds, many government policies [e.g. agricultural subsidy on critical inputs, lack of effective regulation on sustainable groundwater usage, etc.] have contributed to rapid depletion of ground water resources.

Impact on Small and Marginal Farmers

It is argued that shifting from traditional farming to monoculture had negative effects on small farmers. Small and marginal farmers had to purchase costly HYV seeds, fertilizers, and pesticides for which they took loans at relatively higher interest rates and consequently came under 'debt trap'. Also, over-exploitation of groundwater by rich farmers rendered the accessibility of water to the small and marginal farmers difficult.

Over-capitalization in Agriculture

The traditional farming system was mostly based on the locally available farm inputs and implements such as farm grown seeds, wooden and iron ploughs, animal power, farm yard manure, bullock-cart, and other farm tools made by local carpenters and blacksmiths etc. Procurement of these inputs and implements required less or no money as most of them were self-owned or provided by carpenters/blacksmiths in lieu of food grains provided by the farmers under "Jazmani" system. While the traditional system is on the decline, the emerging practices in agriculture appear to be tending towards more capitalisation in many regions. The new agricultural technology required huge investment in modern farm machines, tractors pump sets, etc. which in most of the cases remained underutilized due to division of operational holdings. For instance, division of operational holdings encourages the farmers to purchase more tractors and accessories and irrigation pumps which lead to over-capitalization in agriculture. In agriculturally developed regions, such as Punjab and western Uttar Pradesh, there is over-capitalization in agriculture. Chand and Kumar (2004) find an increase in the number of operational holdings as one of the important determinants of private capital formation in agriculture. Division of holdings increases the number that, in turn, raises the demand for investment in farm assets and machinery. It may be relevant to know that the number of operational holdings in India has increased from 97.16 million in 1985-86 to 115.58 million in 1995-96 and further to 120.28 million in 2000-01. The availability of institutional credit and subsidy to the farm sector motivates these divided holdings to increase investment in farm machinery. This type of private investment in agriculture is not desirable, as it increases the unit cost of cultivation, reduces competitiveness of small farmers, and enhances indebtedness among them.

Widening Disparities

The GR technology has created disparities across regions, and categories of farms. Since it was based on the "betting on the strong" approach, the disparity was inherent in it. The benefits of the

new technology was mainly limited to the few crops, such as wheat, rice, sugarcane and few agriculturally developed regions, having adequate irrigation facilities. Most of the crops and rain-fed agricultural regions did not get sufficient benefits from GR. It is observed that in most of the countries, where the new technology was adopted, its benefits accrued to the farmers of already developed regions, and not to the farmers of the poorest and least developed regions. There is conflicting evidence as to whether it has had "spread effect" or, has intensified income differences across regions. Initially, the green revolution was largely confined to wheat crop in northern India, resulting in a limited contribution to overall economic development of the country. Since the seed-fertilizer technology was not suited to agriculture of the un-irrigated and rainfed regions, to a greater extent it contributed to inter-regional income disparities.

The spread of GR to dry regions proved inappropriate and often caused serious distress to farmers who adopted GR in dry regions based on groundwater resources.GR technology worked effectively on those farms which possessed controlled production environment, such as good quality soils, better irrigation facilities and markets. Since this environment is not sufficiently available in the agriculturally backward regions, farmers of these regions could not get much benefit from the new technology; rather, they lost competitiveness and they remained relatively in the disadvantaged position vis-à-vis their counterparts in the developed regions. C.H. Hanumantha Rao concluded that the technological changes in the Indian agriculture had widened economic disparities between different regions, between big and small farmers and between landholders and land-less workers. However, he observed that in absolute terms in the sense of rise in productivity, production and access to food grains, the gains of GR technology reached all sections of the society in general.

Impact on Ecology and Environment

As stated before, one of the most adverse consequences of the GR technology is in terms of its ecological and environmental impact. While the increased use of chemical fertilizer and pesticides in agriculture has been the main source of decreased land fertility, it has also polluted the river water resources affecting aquatic life in general and fish production in particular. The productivity stagnation during the recent decades is also generally attributed to the degradation of soil and water resources induced by the agricultural practices particularly in the rice–wheat and wheat-sugarcane production systems of the north Indian states. Thus, the intensive use of fertilizers, pesticides, and weedicides have not only caused degradation of natural resources but also resulted in stagnant productivity.

Energy Problems

Another issue related to green revolution technology was its high dependence on fossil fuel energy sources. It is argued that increase in the cost of energy-based agricultural inputs has resulted in an increase in the prices of agricultural products making the GR system economically and ecologically questionable. As observed before, the share of mechanical and electrical power consumption in agriculture has significantly increased over the period. High demand for diesel import has also put more pressure on India's foreign currency reserves.

7.4 Rural Development Programs and Poverty Alleviation Programs

Rural development

Pradhan Mantri Gram Sadak Yojna

he Pradhan Mantri Gram Sadak Yojana (PMGSY), was launched by the Govt. of India to provide connectivity to unconnected Habitations as part of a poverty reduction strategy. Govt. of India is endeavoring to set high and uniform technical and management standards and facilitating policy development and planning at State level in order to ensure sustainable management of the rural roads network.

According to latest figures made available by the State Governments under a survey to identify Core Network as part of the PMGSY programme, about 1.67 lakh Unconnected Habitations are eligible for coverage under the programme. This involves construction of about 3.71 lakh km. of roads for New Connectivity and 3.68 lakh km. under upgradation

Pradhan Mantri Awaas Yojna Grameen

Public housing programme in the country started with the rehabilitation of refugees immediately after independence and since then, it has been a major focus area of the Government as an instrument of poverty alleviation. Rural housing programme, as an independent programme , started with Indira Awaas Yojana (IAY) in January 1996. Although IAY addressed the housing

needs in the rural areas, certain gaps were identified during the concurrent evaluations and the performance Audit by Comptroller and Auditor General (CAG) of India in 2014. These gaps, i.e. non assessment of housing The shortage, lack of transparency in selection of beneficiaries, low the quality of the house and lack of technical supervision, lack convergence, loans not availed by beneficiaries and weak the mechanism for monitoring was limiting the impact and outcomes of the programme. To address these gaps in the rural housing program and in view of Government's commitment to providing "Housing for All'' by the scheme 2022, the of has IAY has been re-structured into Pradhan Mantri Awaas Yojana –Gramin (PMAY-G) w.e.f. 1st April 2016.

PMAY-G aims at providing a pucca house, with basic amenities, to all houseless householder and those households living in kutcha and dilapidated house, by 2022. The immediate the objective is to cover 1.00 crore household living in kutcha house/dilapidated house in three years from 2016-17 to 2018- 19.The minimum size of the house has been increased to 25 sq.mt (from20sq.mt) with a hygienic cooking space. The unit assistance has been increased from Rs. 70,000 to Rs. 1.20 lakh in plain and from Rs75,000 to Rs 1.30 lakh in hilly states, difficult areas and IAP district. The beneficiary is entitled to 90.95 person day of unskilled labour from MGNREGS. The assistance for construction of toilet shall be leveraged though convergence with SBM-G, MGNREGS or any other dedicated the source of funding. Convergence for piped drinking water, electricity connection, LPG gas connection etc. different Government programmers are also to be attempted.

Deen Dayal Upadhyaya Grameen Kaushalya Yojna

The Ministry of Rural Development (MoRD) announced the Deen Dayal Upadhyaya Grameen Kaushalya Yojana (DDU-GKY) Antyodaya Diwas, on 25th September 2014. DDU-GKY is a part of the National Rural Livelihood Mission (NRLM), tasked with the dual objectives of adding diversity to the incomes of rural poor families and cater to the career aspirations of rural youth.

DDU-GKY is uniquely focused on rural youth between the ages of 15 and 35 years from poor families. As a part of the Skill India campaign, it plays an instrumental role in supporting the social and economic programs of the government like the Make In India, Digital India, Smart Cities and Start-Up India, Stand-Up India campaigns. Over 180 million or 69% of the country's youth population between the ages of 18 and 34 years, live in its rural areas. Of these, the bottom of the pyramid youth from poor families with no or marginal employment number about 55 million.

The National Policy for Skill Development & Entrepreneurship 2015 has identified a skills gap of 109.73 million in 24 key sectors by the year 2022. This number cannot be achieved without addressing the BoP 55 million from rural India. Also, a FICCI and Ernst – Young study published in 2013 identified a shortage of over 47 million skilled workers across the globe by 2020. This presents an unprecedented opportunity for India to train its BoP youth population and place them in jobs across the world and realize its demographic dividend.

DDU-GKY takes pride in its partners and their ability to add value. Innovation from partners is encouraged to build scale and capacity… its unique implementation structure involves partners, who are by nature, committed to changing lives and are experts in their areas, they form a part of the Skilling Ecosystem integrated by DDU-GKY. Partners are supported through investment, capacity building, strategies for retention, linkages to international placement and technology support for training purposes.

DDU-GKY is present in 28 States and UTs, across 689 districts, impacting youth from over 7,426 blocks. It currently has over 1,575 projects being implemented by over 717 partners, in more than 502 trades from 50 industry sectors. Over 9.9 Lakh candidates have been trained and over 5.3 Lakh candidates have been placed in jobs as on 1st April, 2020. From 2012, DDU-GKY has so far committed an investment of more than INR 5,600 Crores, impacting rural youth pan-India.

Mission Antodaya

Adopted in Union Budget 2017-18, Mission Antyodaya is a convergence and accountability framework aiming to bring optimum use and management of resources allocated by 27 Ministries/ Department of the Government of India under various programmes for the development of rural areas. It is envisaged as state-led initiative with Gram Panchayats as focal points of convergence efforts.

Annual survey in Gram Panchayats across the country is an important aspect of Mission Antyodaya framework. It is carried out coterminous with the People's Plan Campaign (PPC) of Ministry of Panchayat Raj and its' purpose is to lend support to the process of participatory planning for Gram Panchayat Development Plan (GPDP).

7.5 Poverty Alleviation Programs

The developmental strategies in independent India have had always an anti-poverty thrust. The Government, plan after plan, laid emphasis on removal of poverty. During the First Five Year Plan the Community Development Programme (CDP) was launched with the belief that the overall development of rural India could be brought about only with the participation and initiative of the people backed by technical and other services necessary for securing the best from such initiative and self-help. During the period of the Second Five Year Plan an effort was, made to decentralize the power to the representatives of the people at the district, block and village levels with an objective to mobilize people's support to the rural development programs. The Second Five Year Plan also recognized that benefits of economic development must accrue more and more to the relatively less privileged classes of the society. The Third Five Year Plan also emphasized the need for a sizable increase in national income and wealth. This led, in the early sixties, to the formulation of a number of programmes such as Intensive' Agricultural Development Programme, High Yielding Variety Programme, etc., which were designed to accelerate agricultural production in selected regions that were naturally endowed with good soil and irrigation facilities. These programmes could not improve the lot of rural people and the problem continued to evade solution. On the other hand, unemployment and inequalities in wealth and income have continuously increased despite phenomenal increase in agricultural production.

In all the above plans and programmes the accent was on overall growth, and not on 4nti-Poverty Progammes the removal of poverty. The attempts were too generalized, and the benefits were cornered off by the better off sections and better endowed areas. During the Fourth Five Year Plan the policy makers realized that unless a direct attack on poverty is launched by identification of the members of the target group and aiding them in terms of credit, inputs, subsidy and facilities for marketing, etc., the developmental efforts are likely to bypass the poor. As a result, several poverty alleviation programs and new institutions were brought into existence to safeguard the needs the rural poor. They included Small Farmer Development Agency (SFDA), Marginal Farmer and Agricultural Development Agency (MFA & DA), and Land Ceiling Acts, etc.

During Fifth Plan period priority was given not only to the target group-oriented programs but' also to the area-based programmes, such as Drought Prone Area Program (DPAP), Command Area Development Programme (CADP), Hill Area Development Programme (HADP), Minimum Needs Programme (MNP), 20-Point Economic Programme, etc. During the sixth and seventh plan periods, asset and wage-oriented programmes received top priority. Most important of them are Integrated Rural Development Programme (IRDP), Food for Work Programme (FFWP), National Rural Employment Programme (.NREP), Rural Landless Employment Guarantee Programme (RLEGP), Jawahar Rojgar Yojana (JRY). The approach to the Eighth plan proposes a widening and sharpening of these programs. In the next section, we will discuss the objectives underlying some of the above-mentioned programmes plan wise.

Some of the major programs adopted in the seventies which continued further and were quite successful are discussed in the following section.

lntegrated Rural Development Programme (IRDP)

IRDP introduced in 1979 1s government's major anti-poverty programme today. IRDP alms to enable the selected families to cross the poverty line through a strategy of productive assets creation in the primary, secondary and tertiary sector. It produces ten per cent assistance to beneficiaries through subsidy and credit. The Programme provides for selection of six hundred beneficiaries per year per block.

The extent of subsidy 1s 25 per cent for small farmers, 33 5 per cent for marginal farmers, agricultural laborer’s, and artisans, and 50 per cent for tribal families, Thirty Per Cent of assisted families should belong to scheduled caste and scheduled tribes. The p~ogramme1 s bang implemented by District Rural Development *gentles (DRDAs) headed by district officer, assisted by block development officers and village level workers

The aim of lRDP during the sixth plan, was to benefit 15 million families by selecting 3,000 families. In each block and the total outlay for the block was INR 35 lakh. In view of the interstate variations and disparities in the incidence of poverty,

the financial allocation and taxation of targets for assisting the families. In the Seventh Plan were related to the incidence of poverty In the states The ultimate emphasis of lRDP is not on providing just some kind of assistance and achieving the target of an impressive number of beneficiaries but

on providing substantial assistance or productive assets to the identified participants which should increase their Incomes to a significant extent so that they cross, once and for alI, the poverty line.

Training Rural Youth for Self-Employment (TRYSEM)

TRYSEM was introduced as an allied programme of IRDP In 1979 itself. The objective of TRYSEM is to provide technical skills to rural youth from families below the poverty line to enable them to take up self-employment in agriculture and allied activities, industries, services and business activities. The group comprises rural youth between 18 to 35 of years from families below the poverty line. A minimum of 30 per cent of trained youth should belong to scheduled castes and scheduled tribes and a minimum of 33.5 per cent of youth trained should be women.

National Rural Employment Programme (NREP)

The rationale behind rural employment programmes such as NREP or Jawahar Rojgar Yojna (JKY) is.

1. to spread the employment effect widely and more evenly than in the past;
2. to promote labour intensive technology in preference to capital intensive technology,
3. to create durable assets and provide an Infrastructure for rural development;
4. to utilize the surplus food grains tor the creation of community assets;
5. to create gainful employment for the unemployed and under-employed who reside in the rural areas;
6. to give a guarantee of employment to the poor,
7. to Increase the consumption levels and nutritional intake of the poor; and
8. to bring social change in the village community in terms of meeting social obligations, social mobility etc.

In the implementation process of rural employment policies particularly the Food for Work Programme, defects and shortcoming were noticed by the Government. It was therefore, suitably modified, restructured, and renamed as NREP ill 1980. The programme became a part of Sixth and Seventh Five Year Plans with a view to generate additional employment, to create durable community assets and improve nutritional status and living conditions of the poor.

Rural Landless Employment Guarantee Programme (RLEGP)

RLEGP was introduced in 1983 more or less on the same lines as NREP. Its objective 1s to improve and expand employment opportunities with a view to provide guarantee of employment to at least one member of every rural landless labour household up to hundred days a year. It is hundred per cent government funded programme. In allocation of funds, fifty per cent weightage is now given to the number of agricultural workers, manual farmers and 50 per cent weightage is given to the incidence of rural poverty.

Through all these programmes, the government has been trying to eliminate poverty and bring about rural development. Strategy underlying all the government policies has been to accelerate economic growth, increase rural public works, agriculture growth, land reforms, rural industralisation, provision of common services and population control.

Jawahar Rojgar Yojana

The government of India launched another major employment programme called JRY in 1989. The primary objective of this programme is to generate additional gainful employment for the unemployed and underemployed persons, both men and women in the rural areas. While creating employment opportunities under this programme, such assets are created which can improve the overall quality of life the rural areas and provide benefits to the poverty groups. The works can be taken up and executed during any part of the year whenever the need for generating employment is felt. The people below the poverty line, who are willing to work will be the target group of the programme. Preference is given under the programme to SC & ST and freed bonded labourers. Out of the total employment generated under the programme, 30 per cent share of employment should go to the women. As the JRY is centrally sponsored scheme, the Government of India provides 80 percent of the total earmarked funds. The state governments have to provide 20 per cent of the

funds as a matching grant. The state government allocates the JRY funds to the District Rural Development Agencies Zilla Parishads. The DRDAs/ZPs in turn allocate the resources to the village panchayats on the basis of total population in general and SC & ST population in particular. The village panchayat is free to choose any item of works which is identified by it in consultation with the village assembly. As far as possible, preference should be given to such items of works as land development, social forestry, construction of houses, million wells, solid and water conservation works, construction of village tanks, construction of rural link roads, construction of panchayat ghars etc. which create economically productive assets. The village committee, which is appointed by the village panchayat is to supervise and monitor the programme.

Summary

Agriculture is the backbone of the Indian economy. Over the years there has been increased use of fertilizers, insecticides and other products that enhance the productivity. In the years after independence the country was not self sufficient in terms of food grain. In spite of this, the plans did not give much importance to it but later as the problem persisted, policy level changes were brought, and Green Revolution was introduced. All the water rich states benefitted from this and the country by the early 1970s became self-sufficient and started maintaining buffer stock. However, the story was not all good as the harmful effect of using excessive chemicals was visible. Land productivity went down., the water level went down, the cropping patterns was skewed in favour of crops which received MSP.

The change in the rural economy because of Green Revolution was vividly visible. Though the rural income went up, there were other issues related to development of the rural area for which the government launched number of programs. Over the years the objectives of these programs have nit changed much though the names have changed. Similarly, many anti-poverty programs were also launched with some degree of success.

Keywords

Green Revolution: Refers to a new agricultural technology developed in Mexico and Philippines in the late 1950s and early 1960s for wheat and rice crops respectively which transformed many food deficient countries of Asia and Latin America to food surplus economies. The technology, however, required large capital for purchase of fertilizers and machineries and its applicability was suitable only for regions which were already rich in terms of irrigation and agricultural productivity respects. This feature of the GR technology contributed to many small and marginal farmers and poor states/ regions from being unable to be a part of its process. As a result, many parts of the country could not get its benefits.

High Yielding Variety (HYV): These were special seeds which were to be Seeds used in the GR technology application areas. Unlike indigenously grown seeds, they could withstand high amount of fertilizers. But for this very reason they were also less environmental friendly as they reduced the fertility of soils. However, their quick yields enabled multiple cropping on the same field during years thereby raising the productivity of agricultural produce and income/profits of farmers.

Minimum Support Prices: Prices announced and offered by the government prior to the sowing of seeds to make the crop attractive for farmers and to avoid the risk of fall in prices.

Self Assessment

1. Who coined the term Green Revolution?

A. Dr. M S Swaminathan

B. Dr William Gaud

C. Dr Norman Borlaug

D. None of the above

2. Who funded the Green Revolution project in India?

A. The central government

B. Asian Development Bank
C. World Bank
D. Rockefeller and Ford foundation

3. Which country initiated the green revolution at the global level?
A. India
B. Mexico
C. Philippines
D. USA

4. Which is the first crop for which green revolution was initiated?
A. Wheat
B. Paddy
C. Pulses
D. Potato

5. Where was the International Rice Research Institute set up?
A. Mexico
B. India
C. Philippines
D. America

6. When was the Intensive Agriculture Area Program launched?
A. 1961
B. 1964
C. 1966
D. 1971

7. The IADP was launched in how many districts of India?
A. 114
B. 15
C. 164
D. 100

8. Which of them was not a step for achieving the objectives of Green Revolution?
A. Increased irrigation
B. Agriculture price commission
C. Nationalisation of banks
D. Nationalisation of insurance companies

9. When was the India Seed Act passed?
A. 1966
B. 1968
C. 1965
D. 1971

10. In 1950, how much area was under irrigation?

A. 21%
B. 25%
C. 27%
D. 29%

11. The first central agricultural university was started at which place.
A. Ludhiana
B. Jabalpur
C. Imphal
D. Jhansi

12. When was the Indian Council for Agriculture Research established?
A. 1964
B. 1951
C. 1929
D. 1947

13. Where is the national institute for sorghum located?
A. Indore
B. Hyderabad
C. Cuttack
D. Nagpur

14. How many Krishi Vikas Kendras are there in India?
A. 63
B. 722
C. 11
D. 34

15. How many state agricultural universities are there in India?
A. 63
B. 722
C. 11
D. 34

Answers for Self Assessment

1.	B	2.	D	3.	B	4.	A	5.	C
6.	A	7.	A	8.	D	9.	A	10.	C
11.	C	12.	C	13.	B	14.	B	15.	A

Review Questions

1. Green Revolution was initiated in which crops and why?

2. What are the positive impacts of Green Revolution?
3. Which state has been worst effected by Green Revolution?
4. What are the various rural development programs initiated by the government?
5. Did Green Revolution make agriculture more profitable? Comment

Further Readings

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Unit 08: Agricultural Policy

CONTENTS

Objectives

Introduction

8.1 Land Reforms

8.2 Phases of Land Reforms

8.3 Agricultural Price Policy

8.4 Factors Determining the Agricultural Price Policy

8.5 Food Subsidy and Public Distribution System

8.6 History of Food Subsidy in India

8.7 Public Distribution System

8.8 Food Security and Food Security Bill

Summary

Keywords

Self Assessment

Answers for Self Assessment

Review Questions

Further Readings

Objectives

Discuss the land reforms and the agricultural price policy

Evaluate the food subsidy and the Public Distribution System in the country

Analyse food security and food security bill

Introduction

India is an agrarian economy is a well-known fact. The country has experienced 12 five-year plans, annual plans and now with the NITI Aayog during which policy changes were introduced in agriculture. One of the major changes introduced was land reforms through which the land holding size was reworked upon. Social movements were also carried out so that equitable distribution of land was possible. In the agricultural pricing system too, changes were introduced to ensure that farmers got a fair price for their products. As the country became self-reliant in terms of food grain production, the question of food subsidy started. It refers to a program where the economically deprived people are provided food at subsidised rates through the public distribution centres. Over the years the government has now made right to food as a legal right and the Food Security Act was introduced. All these topics will be discussed in this chapter in detail.

8.1 Land Reforms

Post -Independence policy

Immediately after Independence, the land problem was recognised as one of the basic issues of the state for prompt attention. It is observed by many that the credit for the need to take up reforms on social and legal front by the Congress party goes to the protracted Armed Revolt of the peasants in the Telangana region. The thinking in the Congress Party, which dominated the national scene, formed the basis for serious reformative effort. In fact, between 1941-50, various committees were

appointed by the Congress Party to go into the problem of land reforms. The debate that took place within the Congress Party on agrarian problem both during the freedom. movement and the recommendations made by different committees of the party after Independence constituted the base for the initial phase of land reform policy evolved by the Government of India.

As a consequence of all these developments, a number of measures were adopted in almost all the states through which the vestiges of colonial rule which manifested- in the shape of Jagirs, etc. were abolished. However, abolition of Jagirs did not touch the basic problem of tenants. It only changed the ownership pattern. Not only that many states allowed zamindars and Jagirdars to retain numerous categories of land namely orchards, homesteads and land for personal cultivation. As such abolition of intermediaries was not a radical programme. The problem of conferring ownership rights on the actual tillers of the land-the tenants, the subtenants, sharecroppers was left unsolved.

8.2 Phases of Land Reforms

First Phase

Broadly, the post-Independence India has witnessed two rounds of land reforms programme : the first phase during 1950-65 and the second phase during 1970-83. The subject land being part of the state list, the Government of India provided general policy guidelines while the state governments takes up the responsibility of enacting necessary laws and implementing them. It is necessary to mention here that land reforms being the state subject, it was hardly possible to arrive at any standard and uniform reformative measure since each state adopted its own method depending on the political, administrative and other considerations. The objectives of land reforms were officially formulated for the.first time in the First Five Year Plan. The main objectives were removal of impediments to agricultural production and create conditions for evolving an agrarian economy with high levels of efficiency and productivity. The policy makers at the helm of affairs,thus, were not fully convinced of the economic rationale of land reforms. The planners were in favour of a change in the farm technology, provision of incentives to the investors in modern inputs and focusing attention on areas having assured water supply. The planning Commission, was, however, in favour of a ceiling on future acquisition of Land Reforms lands but subsequently modified'its stand. Finally, the land reform policy was defihed as a 'Cooperative Village Management' a Garidhian ideal, which never came true. This policy of having a nominal ceiling on land holdings and giving top priority to the cooperative farming was supported and accepted by the Congress Party, the Lok Sabha and the Central Cabinet.

The basic, weakness of the First Five Year Plan approach on agrarian structure was an under-estimate to the necessary structural changes. But the Panel on Land Reforms set up by the Planning Commission to work out the policy to be recommended in the Second Five Year Plan took a different stand on this issue. It suggested land ceilings not in the 'general interest' but on the basis of economic rationale behind it, such as satisfying the growing land hunger, reducing the economic inequalities and providing more employment, eic. The members of the Planning Commission, specially, Mahalanobis was the main architect of this approach. But he too did not succeed in incorporating it in the document. Consequently, the Second Five Year Plan could do no more than merely endorse the broad policy of the First Five Year Plan and left the details of the legislation to the states since agriculture happens to be a state subject. Some general suggestions were, however, made in respect of ceiling limits and exemptions.

Ceiling legislations were passed in almost all the states by the end of Second Five Year Plan. However, there. was no uniformity in respect of ceiling level, unit of application, method of compensation, distribution of surplus land and so on. It is appropriate to cite a few examples. The ceiling level ranged from 6 acres in Kerala to 40 acres in Uttar Pradesh in the case of wetlands while from 17.3 acres in West Bengal to 336 acres in Rajasthan in case of dry lands. Further, in a few states such as Gujarat, Kerala, Tamil Nadu, Rajasthan and erstwhile Mysore, ceiling was imposed with the family as a unit, whereas in some other states such as Madhya Pradesh and Bihar the ceiling was based on the individual as a unit. Similar was the problem in respect of payment of compensation. A multiple of gross revenue, was the principle in some states while it was a multiple of net rent in some other states. In some states it was a multiple of gross income of the surrendered land. Similarly, there were wide divergencies in the case of distribution of surplus land.

As a result of the land reform policy of the first phase, out of a total cultivated area of about 400 million acres a mere 2.3 million acres was declared surplus. Out of it only 1.5 million acres which constituted a mere 0.3156 of the cultivable area was distributed. A careful analysis of the first phase

land reforms policy of the government during the first three Five Year Plans reveals that government did never have a firm conviction of the utility of the land reform. It was not- convinced of the economic rationale. The government tried to defend its policy in general and in vague terminology such as 'public interest' and 'sentimental gain', etc. Secondly, as a consequence, the government could not formulate a fool-proof and uniform policy applicable to all the states. Many gaps, thus, were left to be filled by the states in accordance with the local conditions. Thirdly, no time frame was recommended for" the completion of the reforms. The implementation process took 11s own course and, in certain cases it took many decades and that too in vain. The principles of imposing ceilings on land holdings was first announced in 1953, detailed recommendations for legislation were not made until 1956, and most states did not actually pass legislation until 1961. The landowners, therefore, had a period of nearly one decade to arrange. partitions and transfers of holdings to escape the impact of the new laws.

Finally, the responsibility was not fixed at any level for the successful implementation and, consequently in several cases the reforms were side tracked and watered down. Thus, to great extent these weaknesses in the policy formulation were instrumental for the failure of the first round of land ceiling programme in the country.

Second Phase

In the second phase, between 1970-83, the land reform policy had been based mainly on the Study Team Report of Union Home Ministry on Agrarian Unrest (1966-69) the militant peasant movements of Naxalbari and Srikakulam, the opinions expressed by the State Chief Ministers at various Conferences after the review of the land reforms of the earlier period, and the recommendations and guidelines provided by the Central Land Reforms Commission in 1970. In the second phase, there has been a greater emphasis on ceilings on land holdings. Similarly, there was a shift in favour of the landless while distributing government waste lands and surplus land identified by the government through land reforms.

Thus by the time the Fourth Five Year Plan was being finalised there was a sudden shift in the government policy. The Planning Commission was directed to formulate policies on land ceilings to ensure greater access to land for the landless. It seems that government might have realised the complex nature of the land reforms and its connection with the overall agricultural production. The Planning Commission came to the conclusion that **"there were many deficiencies in the law and delays in the enactment and implementation resulting in large scale evasion. The main object of land policy, that is to distribute the land to the landless, has been defeated".** Therefore, the plan document emphasised the' need to review the existing ceiling laws, check the clandestine. land transfers and to implement revised reforms seriously.

The reasons for this sudden shift in the government's policy are not very difficult to identify. There has been a remarkable change in the political-economic sphere of the country. In the first-half of this decade, the country had to face two major wars which led to a strain on the economy. There was industrial stagnation and the agriculture sector experienced unprecedented drought conditions. Growing population flooded the labour market which led to mass unemployment. There was unrest in all the sectors. The situation was channelised by the left parties into peasant movements. The land-grab struggles took place not only in Kerala and West Bengal but also in other states. This had caused alarm in the government. At the same time Pandit Nehru passed away but Mrs. Indira Gandhi did not yet emerge as a strong leader. In 1967, the Congress Party received its major shock in the elections. In addition, the Congress Party was split vertically in 1969. Mrs. Gandhi had to seek the support of the left parties for her sustenance in power. By then the Naxalbari movement was spreading like wild fire and posing a serious problem to the government. The Report' on the Current Agrarian Tension released by the Union Home Ministry emphasised the need to understand the existing disturbances not as a mere law and order problem but to tackle the situation on political grounds. During this time certain other radical reforms such as Bank Nationalisation and Abolition of Privy Purses mainly to catch the eye of the urban middle class and radical land ceilings proposals to pacify the rural masses and landless had become very essential. Thus by late sixties land reforms became a pressing issue for the stability and survival of the political system.

It is necessary to mention a few developments which took place in the ruling party a this juncture. A few in the Congress Party styled as 'Young Turks' with a socialist bent of mind wanted to do something substantial for the downtrodden. They advocated radical land reforms. At the other end the party bosses at the state level representing the Interests of the land owning classes resisted the move since they thought it as a simple law and order problem. In between these two extreme view points there stood Mrs. Gandhi. Finally, Mrs. Gandhl decided to go ahead with radical land

reforms so that she could safely depend on her vote bank and wean away rural poor from the leftist forces.

Systematically, these proposals were put across in different places and platforms- Parliament, public meetings, political conferences, news media, election campaigns. etc. But the idea could nor easily convince the state party bosses and Chief Ministers At one time Mrs. Gandhi had to warn the Chief Ministers in September 1970 that the existing disturbing situation in rural India would lead to a threat to the political power structure and they were unable to grasp the magnitude of the problem.

In spite of this, several chief Ministers did not accept the proposal of the Prime Minister. On the other hand, the Prime Minister had to moderate the Young Turks other so that an amicable solution could be worked out. Finally, a Central Land Reforms Committee (CLRC) was set up to work out the detail of the programme acceptable to all sections of the party.

The report of the Committee was discussed at all the levels and finally the Congress Party arrived at a consensus about the broad policy. The major aspects are given below:

i. The ceiling is to be on the total land held by a family of five members.
ii. The ceiling limit is to be between 10 to 54 acres depending upon fertility and irrigation facilities of the land.
iii. All major children were to be treated as separate family unit.
iv. The cut-off date with respect of land transfers was 24.1.71, the day on which the Congress Party Manifesto was released for the Mid-Term poll.
v. All the unreasonable exemptions given previously were to be done away with.
vi. Compensation would be in the multiples of land revenue.
vii. A special administrative machinery is to be set up for the speedy implementation of the measure.
viii. The responsibility for the implementation should rest with the state government and the legislation were to be completed by December 1972 and implemented immediately.

The state governments did not follow the time frame strictly. Although some states passed the legislation in 1972, the measure came into force only in 1975. Soon after the Indian political scene underwent a total change. The General Elections were held in which the ruling party was defeated. Janta experiments were short lived. The Congress party came back to power at the centre. In all these changes land reforms did not draw any serious attention of the government either at the central level or in the states. It was treated as a routine administrative matter. Even today it is being implemented but at a low pace. There is a talk of land reforms even at this hour as there is rural unrest in almost all parts of India mostly by the landless rural poor. It is an unfinished public policy.

Modern Day Land Reforms

The land reforms in the country so far have not been very successful for the small and marginal farmers. The laws are still tilted in favour of the big landholders. The modern-day land reforms require digitisation of the land records as this will bring in much needed transparency in the land ownership. The land reforms are a state subject and the ownership of land is more of a presumptive title than a conclusive title. NITI Aayog has drafted the Land Title Act, 2019 so as to facilitate the farmers in buying or transferring land titles. The objective is to minimise land related litigations. The farmers would get easy credit and they will also be entitled to compensation from the government if the land is taken by the government.

8.3 Agricultural Price Policy

The pricing of agricultural products is very important to protect the interest of the farmers. The, remunerative price for agricultural products ensures that the:

(a) farmers are not forced to sell their crop at very low prices during post-harvest times; and
(b) agricultural prices do not get out of control in a year of crop failure which may result in food price inflation.

In other words, pricing of agricultural products is aimed at striking a balance between the interests of:

(a) the producers by ensuring a minimum support price; and
(b) the consumers by maintaining stable food prices.

In order to achieve this, the various mechanisms instituted by the government are:

(i) declare a minimum support price (MSP) [or procurement price] for important crops,
(ii) procure crops at the MSP through its various agencies like the FCI,
(iii) strengthen the agricultural marketing system like market infrastructure and warehousing,
(iv) distribute the foodgrains at subsidized prices through the PDS, and monitor regularly the p
(v) prices through an elaborate arrangement of data collection, processing and dissemination

8.4 Factors Determining the Agricultural Price Policy

The role of the government in monitoring the agricultural prices is clear in the light of the discussion above. Prices should not be so low that they result in losses for producers. They should rather be conducive to higher agricultural production, investments and growth. These factors are of vital importance particularly in a developing country. On the other hand, prices should not be so high that they erode consumers' purchasing power. Retardation of growth of industries and services may take place if people end up spending a larger chunk of their budget in meeting the essential food requirements. How then must the government go about determining the agricultural prices? In this section, we dwell on the objectives of an appropriate agricultural price policy which must be aligned to the factors that should be kept in view in their formulation.

Proper Remuneration

More than 80 percent of Indian farmers fall under the category of small and marginal farmers. Apart from the uncertainty of the monsoon, the other main risk they have to bear is the movement in market prices for their product. Unlike industrial products, agricultural commodities have many features of a perfectly competitive market e.g. (i) the products are homogenous in nature; (ii) there are large number of small buyers and sellers. These factors mean that the producers have negligible control over the prices. Agricultural prices are, therefore, much more volatile than the industrial goods. Low prices for the produce can ruin the farmer. Therefore, price-regulating authorities try to fix the price (or a range of prices) at a level that the agricultural producers are assured of a minimum return. Another important factor to be kept in mind is that the less endowed farmers often borrow large sums to carry out production. In view of this, if they get un-remunerative prices it becomes difficult for them to repay the loan. Suicide deaths in recent years by the cotton farmers of Vidarbha region of Maharashtra, and other places such as Punjab, Karnataka, Andhra Pradesh, are examples of what may happen if remunerative prices do not prevail. In many cases, failure of harvest adds to the crisis, but low price is a major reason.

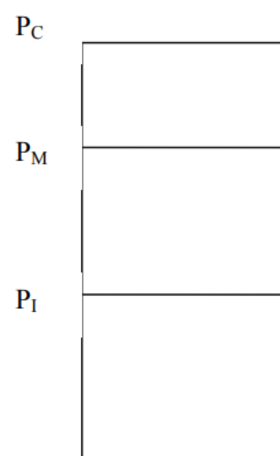
The issue of remunerative price for the producer is interlinked with the price of inputs. A sharp rise in the price of inputs adversely affects the profit of the farmer. Taking this factor into account, the government stressed the importance of subsidized inputs. This was in the decades following independence. In the last two decades after the introduction of the policies of economic reforms, many of the production subsidies (e.g. free electricity or low priced electricity to farmers, subsidized fertilizers, seeds and irrigation) have been (or are being) withdrawn. This has adversely affected the farmers by increasing their cost of production. As a consequence, growth rate of output, as well as investments in agriculture, have declined in the 1990s compared to the previous decades. This issue is particularly related to the shrinkage of public investment in agricultural infrastructure development. All these factors which contribute to raising the cost of production of the farmer requires to be duly considered while fixing the agricultural prices for procurement.

Equitable Income Distribution

We mentioned earlier that agricultural prices influence both the general income distribution as also the level of employment. So what should the regulatory authorities do? In the post-independent India, the official approach was to fix a Minimum Support Price (MSP) as procurement price. The

foodgrains so procured is subsequently distributed through the Public Distribution System (PDS) at controlled cheap rates, called the issue price. Since the procurement price is often higher than the issue price, the deficit is borne by the government as subsidy. The subsidy compensates: (i) the consumers, since the issue price at the PDS outlets is lower than the open market price; and (ii) the producers, since the procurement price would be higher than the market price. Figure 8.1 explains this diagrammatically. Here P_M is the open market price, which is too low for the producers to earn a reasonable profit and too high for the consumers to satisfy their food requirements. Therefore, the government intervenes in the market and purchases grains from the farmers at price PC which is greater than P_M. Therefore, (P_C – P_M) is the subsidy given to the producers. Subsequently, the grains are sold at price PI through the fair price shops. Since PI is also less than PM, (P_M – P_I) is the subsidy given to the consumers. The total subsidy given per unit of crop is thus the difference between the procurement price (P_C) and issue price (P_I) i.e. (P_C – P_I). The situation depicted in the figure is, however, an ideal one which need not always prevail. At times, the issue price PI could be higher than the open market price P_M . This has become common after targeted public distribution system has been introduced. In the targeted PDS, the issue price for the above poverty line section is set at a high level.

Fig. 8.1 Market Price, Procurement Price and Issue Price



Government intervention in the prices of agricultural products is not limited to foodgrains alone. Cotton, jute etc. also are protected through the Minimum Support Price. For products which are of non-food nature, various agencies like the CCI (Cotton Corporation of India), JCI (Jute Corporation of India) and Tobacco Board ensures that the prices play a balancing role. Apart from the effect on producer and consumer, agricultural pricing policy should also consider the distribution of gains between the producers of various regions. Setting a high price for a crop produced in some regions makes the producers of those regions and crop better-off than the rest. Therefore, the producers of other crops may shift to the production of that particularly remunerative crop. This causes grievance among the producers of other regions. The regulatory authorities needs to keep this also in mind while fixing the procurement price.

Stable Prices for Inflation Control

We have noted above that small farmers are adversely affected if there is uncertainty regarding prices that they are going to receive. If the prices are higher than what is necessary to earn a minimum profit level, they are better motivated. If, on the other hand, prices fall below this level the farmers in general, and the small farmers in particular, are affected badly. Since the small farmers are often dependent on loans to carry out their production, such depression in the prices might leave them bankrupt. Therefore, the pricing authorities should not only aim at providing a remunerative price to the producers but the price should be stable. Stability in the procurement prices has a stabilizing influence on open market price. Stability of prices reduces the uncertainty of Agricultural Price Policy and Food Inflation the producers regarding investment, employment, etc. Unstable prices has the potential of triggering food inflation. As we noted before, high food inflation causes the general inflation rate also to shoot up. The objective of price fixation from the point of view of maintaining stability through controlling inflation is thus underscored.

Commission for Agricultural Costs and Prices

The Commission for Agricultural Costs & Prices (CACP) is an attached office of the Ministry of Agriculture and Farmers Welfare, Government of India. It came into existence in January 1965. Currently, the Commission comprises a Chairman, Member Secretary, one Member (Official) and two Members (Non-Official). The non-official members are representatives of the farming community and usually have an active association with the farming community.

It is mandated to recommend minimum support prices (MSPs) to incentivize the cultivators to adopt modern technology, and raise productivity and overall grain production in line with the emerging demand patterns in the country. Assurance of a remunerative and stable price environment is considered very important for increasing agricultural production and productivity since the market place for agricultural produce tends to be inherently unstable, which often inflict undue losses on the growers, even when they adopt the best available technology package and produce efficiently. Towards this end, MSP for major agricultural products are fixed by the government, each year, after taking into account the recommendations of the Commission.

As of now, CACP recommends MSPs of 23 commodities, which comprise 7 cereals (paddy, wheat, maize, sorghum, pearl millet, barley and ragi), 5 pulses (gram, tur, moong, urad, lentil), 7 oilseeds (groundnut, rapeseed-mustard, soyabean, seasmum, sunflower, safflower, nigerseed), and 4 commercial crops (copra, sugarcane, cotton and raw jute).

CACP submits its recommendations to the government in the form of Price Policy Reports every year, separately for five groups of commodities namely Kharif crops, Rabi crops, Sugarcane, Raw Jute and Copra. Before preparing aforesaid five pricing policy reports, the Commission draws a comprehensive questionnaire, and sends it to all the state governments and concerned National organizations and Ministries to seek their views. Subsequently, separate meetings are also held with farmers from different states, state governments, National organizations like FCI, NAFED, Cotton Corporation of India (CCI), Jute Corporation of India (JCI), trader's organizations, processing organizations, and key central Ministries. The Commission also makes visits to states for on-the-spot assessment of the various constraints that farmers face in marketing their produce, or even raising the productivity levels of their crops. Based on all these inputs, the Commission then finalizes its recommendations/reports, which are then submitted to the government. The government, in turn, circulates the CACP reports to state governments and concerned central Ministries for their comments. After receiving the feed-back from them, the Cabinet Committee on Economic Affairs (CCEA) of the Union government takes a final decision on the level of MSPs and other recommendations made by CACP. Once this decision is taken, CACP puts all its reports on the web site for various stakeholders to see the rationale behind CACP's price and non-price recommendations.

8.5 Food Subsidy and Public Distribution System

Food Subsidy

Food subsidy is provided in the budget of the Department of Food and Public Distribution to meet the difference between economic cost of food grains and their sales realization at Central Issue Prices fixed for TPDS and other welfare schemes. In addition, the Central Government also procures food grains for meeting the requirements of buffer stock. Hence, part of the food subsidy also goes towards meeting the carrying cost of buffer stock. In a country like India food subsidy is important to provide food for the masses. The subsidy is provided to FCI, which is the main instrument of the Government of India for procurement and distribution of wheat and rice under TPDS and other welfare schemes and for maintaining the buffer stock of foodgrains as a measure of food security.

This apart, fifteen States, namely Andhra Pradesh, Telengana, Bihar, Madhya Pradesh, Chhattisgarh, West Bengal, Uttarakhand, Tamil Nadu, Andaman & Nicobar, Orissa, Gujarat, Karnataka Kerala, Punjab and Rajasthan have joined the DCP Scheme under which they have undertaken the responsibility of not only procuring foodgrains from within the State but also distributing the same to the targeted population under TPDS and other welfare schemes. Under this scheme of Decentralized procurement, State specific economic cost is determined by the Government of India and the difference between the economic cost so fixed and the Central Issue Prices is passed on to the State as food subsidy.

Table 8.1: Year wise Food Subsidy Released

Year	Food Subsidy Released		
	FCI	States	Total
2013-14	14240.00	75500.02	89740.02
2014-15	91995.35	21175.81	113171.16
2015-16	112000.00	22919.00	134919.00
2016-17	103334.61*	27338.35	130672.96*
2017-18	101981.69**	38000.00	139981.69 **
2018-19	140098***	31029.485	171127.485
2019-20 As on 30.06.2019	83500.00	10750.00	94250.00

8.6 History of Food Subsidy in India

The Food Department was re-designated as Ministry of Food on 29th August 1947. As per available records, the Directorate of Sugar and Vanaspati was part of Food Ministry in 1947. On 1st February 1951 the Ministry of Agriculture was combined with the Ministry of Food to constitute the Ministry of Food and Agriculture, for greater administrative efficiency and economy. Over time as the work expanded significantly, two separate ministries, namely Ministry of Food and Ministry of Agriculture were formed in October 1956 but they were again merged on 17th April 1957 as Ministry of Food and Agriculture. On 30th December 1958, the work related to the Central and State Warehousing Corporations was transferred to the Department of Food, in the Ministry of Food and Agriculture.

In 1960 the Ministry was made into two departments, namely the Department of Food and Department of Agriculture. Department of Food was given the responsibility of procurement of food grains for civil and military requirements, distribution of imported food grains to States, co-ordination, planning and guidance of national food policy and regulation of import and export of food grains. Directorate of Sugar and Vanaspati remained with Department of Food. Department had various schemes for development of sugar and vanaspati industries. The National Sugar Institute was actively engaged in teaching, training and research for the development of this critical sector.

In 1983, the Department of Food was taken out of the Ministry of Agriculture and a new Ministry of Food and Civil Supplies was formed. The following functions were transferred to the Ministry,

- Purchase of food stuffs for civil and military requirements and their disposal
- International Wheat Council, International Sugar Council, World Food Council and IFPRI.
- Entering into treaties and agreements with foreign countries and implementing of treatise, conventions with foreign countries relating to trade and commerce in food grains and other food stuffs.
- Hiring and acquisition of godowns for storage of food grains and other food stuffs including sugar
- Inter-State trade and commerce in respect of food grains and foodstuffs including sugar
- Industries, the control of which by the Union is in public interest, related to fruit and vegetable processing industry, sugar industry including gur and khandsari and food grain milling industry
- Central Warehousing Corporation and State Warehousing Corporations
- Trade and commerce in and supply and distribution of food grains
- Trade and commerce in and the production, supply and distribution of sugar and food stuffs other than food grains
- Price control of food grains, foodstuffs and sugar

- Matters related to Directorate of Sugar, National Sugar Institute, Development Council for Sugar Industry and other subordinated offices under Department of Food.

In June 1991, an independent Ministry of Food was created. But in March 1992 in order to improve efficiency, the Ministry of Food, which was having a single department, was divided into two departments, Department of Food and Department of Food Procurement and Distribution.

Finally in the new millennium on 17th July 2000, the then Ministry of Consumer Affairs and Public Distribution was renamed as the Ministry of Consumer Affairs, Food and Public Distribution, with two departments, namely Department of Food & Public Distribution and Department of Consumer Affairs, which is continuing till date.

8.7 Public Distribution System

Objectives of Public Distribution System

The objectives of the public distribution system (PDS) are threefold:

1. price stability,
2. price support to farmers,
3. making grain "affordable", through distribution from surplus to deficit regions and to the poor.

You may have observed that immediately after crop harvest there is excess supply in the market which brings down prices. The marginal and small farmers sell part of their produce under distress to meet pending demand. These groups are exploited by local traders who offer very low price for purchase of food grains. The procurement of food grains by the government helps the farmers in getting remunerative prices. Similarly, in case of temporary shortages the PDS has an important role to play. It guards against sharp price rise by releasing increased supply to the market. Thus, PDS works to stabilize prices as well as it offers price support to farmers. Moreover, there is a need to transfer food grains from surplus states to deficit states. The PDS caters to this need. The public distribution system (PDS) is supposed to insulate the poor from the impact of rising prices of essential commodities and maintain their minimum nutritional status. The modern public distribution system for food grains was set up in 1965, as part of an overall strategy of food management.

An important aspect of the country's food management policy is to maintain a buffer stock. This constitutes an essential component for ensuring food security through the public distribution system. The buffer stock provides the basic and most flexible instrument for moderating short-term effects of supply or production shortfalls. The prescribed buffer stock level during a year ranges from a maximum of 24.3 million tonnes (14.3 million tonnes of wheat and 10 million tonnes of rice) in July to a minimum of 20.8 million tonnes (4.0 million tonnes of wheat and 11.8 million tonnes of rice) in April.

Operational Aspects

PDS is operated under the joint responsibility of the centre and state governments. The central government has the responsibility for procurement, storage, transportation and bulk allocation of essential commodities namely wheat, rice, sugar, imported edible oil and kerosene to the states. These commodities are made available at fixed Central Issue Prices (CIPs), which are determined by the central government. However, the CIPs has been lower than the economic costs of food grains which includes purchase, storage and transportation costs. Thus, PDS generally involves subsidies which is borne by the central government. The state governments have the responsibility of distribution to consumers including target groups through a network of 4, 63,000 fair price shops (FPSs).

Procurement Mechanism

The Food Corporation of India (FCI) is the main agency for procurement, storage and distribution of food grains. Food grains (wheat, paddy & coarse grains) are procured by the FCI in association with State procuring agencies. Rice is procured from rice millers and dealers under statutory levy.

Procurement of food grains under price support serves the twin purposes of providing remunerative prices to the farmers and of building buffer stock of food grains.

Wheat, paddy, and coarse-grains are procured in Purchase Centers opened in Surplus States by FCI/State Agencies. Quantities procured by the State Governments/Agencies are taken over by FCI on payment of incidental charges etc. The Rabi Marketing Season commences on 1st April every year. Bulk of the procurement is completed within 45 days.

Procurement of rice through statutory levy: A certain percentage of rice milled by millers has to be handed over to FCI under the Levy Orders issued by the State Governments under the Essential Commodities Act. The levy percentage varies from10% in Pondicherry to 75% in Haryana, Punjab and Orissa. The levy prices are announced well before the Kharif Marketing Season, which begins on 1st October every year.

The PDS, however, has not been very successful in providing food security to the poor. In the past few years the importance of the PDS as an outlet for food grains at controlled prices has diminished greatly as a result of steep and frequent increases in procurement prices followed by more than proportionate increase in the central issue prices of food grain (see Tables 8.2).

The real beneficiaries of the large increase in procurement prices have been the surplus farmers of wheat and rice in four states, which account for nearly 90 per cent of the procurement. Andhra Pradesh, Punjab and Haryana are the major rice procuring states, while Pubjab, Haryana and Uttar Pradesh account for the bulk of wheat procurement. According to R. Radhakrisha, "The strong arm tactics of the powerful farm lobbies in prosperous states like Punjab and Haryana have actually hurt a large number of farmers in other parts of the country".

Public Distribution Mechanism

The PDS, till a few years ago was a general entitlement scheme to all consumers without any targeting. This system had many shortcomings. According to the Planning Commission, despite the mounting food subsidy bills, the system has failed to translate the macro level self sufficiency in foodgrains achieved by the country into household level food security for the poor. In a system with access to all, rich and poor alike, the quantum of PDS supply to each household formed only a small proportion of a family's total requirement. Another fallout of the universal PDS has been that the states with the highest incidence of poverty, viz., Orissa, Bihar, Madhya Pradesh and Uttar Pradesh are the ones who's per capita PDS off-take has been the lowest. The universal PDS, thus, did not serve the poor well especially in the poorer states. A need was felt for devising a system of targeting so that the subsidies benefit only those sections that the state wants to protect. A targeted system was also felt necessary in order to contain the total food subsidy to the minimum necessary level

8.8 Food Security and Food Security Bill

Food security is a human right. In India after the famine of 1940s, special stress has been laid to providing food to the masses. The Public Distribution System through the Fair Price Shops has ensured that the masses are provided with sufficient food. In 2013, the National Food Security Act was passed. This brough about a paradigm shift from welfare to right based approach.

Table 8.2: Minimum Support Price

Statement Showing Minimum Support Prices - Fixed by Government (Rs.quintal)								
Commodity	Variety	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
KHARIF CROPS								
PADDY	Common	1360	1410	1470	1550	1750	1815	1868
	Grade 'A'	1400	1450	1510	1590	1770	1835	1888
JOWAR	Hybrid	1530	1570	1625	1700	2430	2550	2620
	Maldandi	1550	1590	1650	1725	2450	2570	2640
BAJRA		1250	1275	1330	1425	1950	2000	2150
MAIZE		1310	1325	1365	1425	1700	1760	1850
RAGI		1550	1650	1725	1900	2897	3150	3295
Tur (Arhar)		4350	4625^	5050^^	5450^	5675	5800	6000
MOONG		4600	4850^	5225^^	5575^	6975	7050	7196
URAD		4350	4625^	5000^^	5400^	5600	5700	6000
COTTON	Medium Staple	3750	3800	3860	4020	5150	5255	5515
	Long Staple	4050	4100	4160	4320	5450	5550	5825
Groundnut		4000	4030	4220*	4450^	4890	5090	5275
SUNFLOW ER SEED		3750	3800	3950*	4100*	5388	5650	5885
SOYABEA N	Black	2500	-	-	-	-	-	-
	Yellow$$	2560	2600	2775*	3050^	3399	3710	3880
SESAMUM	-	4600	4700	5000^	5300*	6249	6485	6855
NIGERSEE D	-	3600	3650	3825*	4050*	5877	5940	6695
RABICROP S								
WHEAT		1450	1525	1625	1735	1840	1925	1975
BARLEY	-	1150	1225	1325	1410	1440	1525	1600
GRAM	-	3175	3500**	4000^	4400!	4620	4875	5100
MASUR (LENTIL)	-	3075	3400**	3950!	4250*	4475	4800	5100
Rapeseed & Mustard	-	3100	3350	3700*	4000*	4200	4425	4650
SAFFLOWE R	-	3050	3300	3700*	4100	4945	5215	5327
TORIA	-	3020	3290	3560	3900	4190	4425	4650
OTHER CROPS								
COPRA	Milling	5250	5550	5950	6500	7511	9521	9960
(Calender Year)	Ball	5500	5830	6240	6785	7750	9920	10300
DE-HUSKED COCONUT		1425	1500	1600	1760	2030	2571	2700
Calender Year)								
JUTE		2400	2700	3200	3500	3700	3950	4225

** Including Bonus of Rs.75 per quintal.
^ Includin Bonus of Rs. 200 per quintal.
^^ Including Bonus of Rs. 425 per quintal.
* Including Bonus of Rs. 100 per quinta .
$$ Minimum of Support Price of Soyabean yellow is also applicable to black variety during 2015-16 and 2016-17.
! Including Bonus of Rs. 150 per quintal.

Food Security and its Significance

"God who is unnamable and unfathomable by human understanding, and it means God of the poor, God appearing in the hearts of the poor….For the poor the economic is the spiritual. You cannot make any other appeal to those starving millions. It will fall flat on them. But you take food to them and they will regard you as their God. They are incapable of any other

thought….According to me the economic constitution of India and, for the matter of that, the world should be such that no one under it should suffer from want of food and clothing. In other words, everybody should be able to get sufficient work to enable him to make two ends meet." Mahatma Gandhi

Food security refers to access for people, especially poor who are below poverty line, to adequate food necessary for a normal life. Food security is a social concept dealing with community needs. Adequate food means sufficient quantity of nourishment that a person in normal circumstances is required to consume according to food science experts. According to the Planning Commission, a person needs a minimum of a daily calorie intake of 2400 in rural areas and 2100 in urban areas. According to the Food and Agricultural Organization (FAO), a person needs a minimum of 2000 calories per day.

In terms of quality the food must be reasonably nutritious that enables a person to sustain and develop his physical and mental faculties and personality. Therefore, the food must include pulses, edible oils, milk products, egg, meat, and some fruits and vegetables.

These together will give the required nutrients like carbohydrates, proteins, fats, mineral and vitamins necessary for healthy growth. If people do not get the required diet they are deprived of nourishment which may adversely affect their capabilities affecting their growth and development.

Food security also means that people, especially poor, have the ability to pay in terms of purchasing power needed for purchasing the required quantity and quality of food in terms of nutrients. This ensures that the human resource in the society get what is needed for a normal life and can be expected to contribute towards promoting economic growth and development of the society. Food security ensures that in the society every one gets the minimum required food and nutrients for a productive life and therefore can contribute to the progress of the society.

The absence of food security can have disastrous consequences for the deprived people and the society. It becomes a stigma if a significant section of the population is unable to participate in the development process of the society. When adequate nutrients are not available in one's food, it impairs one's ability to work. Stunted growth, weak eyes etc deprive them of the ability to pursue a good employment career. Such malnutrition also reduces the immunity or resistance to diseases, often affecting adversely the whole lifetime. Inadequate food and nutrition add to hunger and keep people weak, underdeveloped and inefficient. Infants and women are especially vulnerable in terms of food insecurity.

At a collective level, people deprived of food remain unemployed or face a very poor quality of employment with low wages which leads to waste of human resources. Further, such dependent population constitutes a burden on the economy and society as they have to be provided with food and again they may have to be offered public assistance when they become sick or invalid. On the whole a society with a significant section deprived of food security, make development meaningless as it results in an unbalanced development where the rich get richer and poor degenerate into more acute poverty. The absence of food security retards a society's development while adequate security releases productive human resources for nation-building

Food Security Bill, 2013

The enactment of the National Food Security Act, (NFSA) 2013 on July 5, 2013 marks a paradigm shift in the approach to food security from welfare to rights based approach. The Act legally entitles upto 75% of the rural population and 50% of the urban population to receive subsidized foodgrains under Targeted Public Distribution System. About two thirds of the population therefore is covered under the Act to receive highly subsidized foodgrains. As a step towards women empowerment, the eldest woman of the household of age 18 years or above is mandated to be the head of the household for the purpose of issuing of ration cards under the Act. The Act is being implemented in all the States/UTs, and on an all India basis, out of maximum coverage of 81.34 crore persons, around 80 crore persons have been covered under NFSA at present for receiving highly subsidized foodgrains. The identification of beneficiaries by States/UTs is a continuous process, which involves exclusion of ineligible/fake/duplicate ration cards and also exclusion on account of death, migration etc. and inclusion on account of birth as also that of genuine left-out households.

Summary

The land reforms that took place after independence has helped to improve the inequality in the land ownership. The Land Title Act, 2019 shows the further change in the attitude of the state as far as land ownership is concerned. Along with the land reforms there is also the agricultural price policy that has helped the agriculture sector to evolve. Food security refers to the provision of basic

food requirements for all. It refers to ensuring minimum food requirements to the poor and disadvantaged sections of the society at subsidised or concessional rates. Food security ensures the welfare of the poor and is therefore highly valuable from the point of view of equity and social justice. It is necessary
for helping in raising the standard of living, efficiency and productivity levels in the country. In India food security is needed because large sections of the society live below the poverty line. Apart from non-availability of minimum required food, the quality of food in terms of nutrients is also poor. The Government of India has been taking several measures to ensure food security like providing minimum purchasing power in the hands of poor, special schemes to make food available at subsidised rates for the poor, MNREGS, PDS, ICDS, and MDMS.

Keywords

Agrarian: elating to land and cultivation.

Consumer subsidy: The consumer subsidy is the difference between the economic cost (the cost incurred by the central government by way of procurement, storage, transport and distribution) and the central issue price (CIP).

Food security: Food security means that people have physical and economic access to foodgrains.

Food subsidy: The food subsidy is the total of the consumer subsidy and the carrying cost of the buffer stock.

Land Ceiling: A restriction, enacted by the legislative, imposed on the upper limit of holding of land.

Minimum Support Price (MSP): The price at which the government buys farm produce from farmers. The farmers can sell their produce (e.g. wheat and rice) to the government at this price if they are unable to sell at higher price in the market

Open Market Price: The price prevailing in the market as determined by the interaction of demand for and supply of goods without any external intervention.

Price Elasticity of Demand: This measures the responsiveness of demand for a good to change in its unit price. Generally, food has low price elasticity of demand especially for the poor people. This is because food being a necessity, the effect of price rise on reduction in quantity demanded is low.

Procurement Price: The price fixed by the government for different crops at which it buys crops from the farmers

Self Assessment

1. Where was the land reform movement most successful?

A. Kerala

B. Jammu and Kashmir

C. West Bengal

D. All the above

2. What was the aim of Bhoodan movement?

A. To free land for the landless

B. To get the big zamindars denote surplus land to the landless

C. To acquire land for the government

D. None of the above

3. What was the ceiling limit during the second phase of land reforms?

A. 10-20 acres

B. 10-35 acres

C. 10- 44 acres

D. 10-54 acres

4. Why was there a big range while setting the ceiling on land holding?
A. The government wanted to protect the big landholders.
B. It was a clerical mistake.
C. The fertility of soil was different in different parts of the country.
D. None of the above.

5. Which committee recommended the progressive decontrol on foodgrain trade?
A. Foodgrains price committee
B. Foodgrains enquiry committee
C. Agricultural prices commission
D. None of the above

6. What are the foodgrains available in the fair price shops?
A. Wheat
B. Rice
C. Coarsegrains
D. All the above

7. When was the Food Corporation of India established?
A. 1947
B. 1951
C. 1965
D. 1966

8. Are the terms of trade between agriculture and non-agriculture considered while determining the MSP?
A. True
B. False

9. What is the rank of India in the global hunger index?
A. 101
B. 102
C. 103
D. 104

10. How much is the economic cost of wheat for the FCI in 2020-21?
A. Rs. 1908
B. Rs. 2615
C. Rs. 2683
D. Rs. 3723

11. What is the percentage of population that is covered under the Food Security Act?
A. 67 %
B. 75%
C. 50%

D. 33%

12. When was the Targeted Public Distribution System introduced?

A. 1995

B. 1997

C. 2000

D. 2013

13. What is the indicator of food security in India?

A. Per capita income

B. Per capita calorie consumption

C. Sale of foodgrains

D. Sale of vegetables

14. Do all the countries have same indicator for food security?

A. True

B. False

15. Is the Integrated Child Development Service scheme centrally sponsored?

A. True

B. False

Answers for Self Assessment

1.	D	2.	B	3.	D	4.	C	5.	A
6.	D	7.	C	8.	A	9.	B	10.	C
11.	B	12.	B	13.	B	14.	B	15.	A

Review Questions

1. If there is extremity in prices, how will it impact agriculture?
2. Has food subsidy effected the supply of labour in the country?
3. Discuss the future scenario in the area of Food Security in the light of the proposed National Food Security Act.
4. Is there a need for a second round of land reforms?
5. What are the objectives of Public Distribution System?

Further Readings

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Unit 09: Industrial Development

CONTENTS

Objectives

Introduction

9.1 The MRTP ACT, 1969

9.2 The Competition Act, 2002

9.3 Industrial Policy and the 12th Five Year Plan

9.4 Privatisation and Disinvestment

9.5 MSME Sector

Summary

Keywords

Self Assessment

Answers for Self Assessment

Review Questions

Further Readings

Objectives

Discuss industrial policy reforms

Discuss the MRTP Act and CCI

Evaluate the industrial policy in the 12th Five Year Plan

Evaluate privatization and disinvestment

Introduction

The Indian economy was in fact never under such severe strain as it was during 1990-9 1. The international factors like Gulf War, disruption of USSR and the uncertain political situation at the Centre brought about a considerable derating of India-s credit worthiness in world finance markets, which led to critical balance of payment position in the country. Foreign exchange reserves came down to an extremely critical level between July 1990 and June 199 1 within the economy many disturbing factors like double-digit inflation along with delay in the implementation of the medium term adjustment package and the absence of the political stability on the domestic front further aggravated the strain to the Indian economy. Under such disconcerting features of the Indian economy, the Government took measures, one after another, and announced certain policy decisions in an attempt to redress the current economic difficulties. These included new industrial policy, EXIM policy, EXIM scrips, a policy for small scale and cottage industries, devaluation of the rupee and so on. All these policies represent as a full package policy reform to aim at quick revival of the momentum of the Indian economy.

Among the policies, which aim to liberalise the whole economy, the new industrial policy occupies the foremost place with an aim to raise industrial efficiency to the international level and, mainly through it, to accelerate industrial growth. The new industrial policy statement placed before the parliament on July 24,199 1, related to the following areas: industrial licensing policy, foreign investment, foreign technology agreements, public sector policy and Monopolies and Restrictive Trade Practices (MRTP) Act. The basic objectives of these policies was to raise the efficiency and accelerate industrial growth.

9.1 The MRTP ACT, 1969

In India monopolies and restrictive trade practice were regulated till recently by the Monopolies and Restrictive Trade Practices Act (MRTP Act), 1969. However, it has been replaced now by the Competition Act, 2002, which had received the assent of the President on January 13, 2003; while certain sections of the Act came into force on June 19, 2003. The Competition Commission as envisaged under the Competition Act, 2002, was established on October 14, 2003. It replaced the MRTP commission, established under the MRTP Act.

Purpose of the MRTP Act

The MRTP Act was enacted to ensure that the economic system in India does not lead to the concentration of the economic power into a few hands. Towards this end, emergence of monopolies was to be controlled and monopolistic and restrictive trade practices were prohibited. The MRTP Act did not apply to any undertaking controlled by the Government or which is owned by a cooperative society formed and registered under any central or Provincial or State Act, or owned/controlled by a corporation. The Act established an MRTP Commission, suitably empowered, with a chairman, and two to eight other members appointed by the Central Government. While the Chairman was to be a person qualified to be a judge of the Supreme Court or a High Court, the members were 'persons of ability, integrity and standing' who had adequate knowledge or experience or capacity to deal with problems relating to Economics, Law, Commerce, Accountancy, Industry, Public Affairs or Administration. The Central Government appointed a Director General of Investigation and Registration, and other Officers.

The Commission was empowered to inquire into:

a) Any restrictive trade practice,

i) on receiving a complaint from any trade association or any consumers, or a registered consumers association; or

ii) upon a reference from the Central Government or a state Government; or

iii) upon an application by the Director General; or

iv) upon its own knowledge and information.

b) Any monopolistic trade practice, upon a reference made to it by the Central Government, or upon an application made by the Director General, or upon its own knowledge or information.

If the MRTP Commission, during any inquiry, was satisfied that any person or undertaking is carrying on, or is about to carry on, any monopolistic, restrictive or unfair trade practice, which is prejudicial to the public interest, or to the interest of

(i) any trader or a class of traders generally, or (ii) of any consumer or class of consumers generally, the Commission may grant a temporary injunction restraining such practice until the conclusion of the inquiry or until further orders.

If such practice had caused damage to any Government, trader or consumer, the commission, on application from the aggrieved party, might award it appropriate compensation.

The Central Government, on the report of inquiry by the Commission, could

i. regulate the production, storage, supply, distribution or control of any goods or services by an undertaking and fixing the terms of their sale (including prices) or supply.
ii. it could prohibit any act or practice or commercial policy which prevented or lessened competition.
iii. fix standards for the goods used or produced by an undertaking.
iv. declare unlawful a specified agreement.
v. regulate the profits and the quality of any goods or services.

MRTP Definitions

The MRTP contains, inter alia, the following definitions:

Monopolistic Trade Practice ‘Monopolistic trade practice’ means a trade practice which has, or is likely to have, the effect of

i) maintaining the prices of goods or charges for services at an unreasonable level by limiting, reducing or otherwise controlling the production, supply or distribution of goods or the supply of services or in any other manner.

ii) unreasonably preventing or lessening competition in the production, supply or distribution of any goods or in the supply of services, whether or not by adopting unfair method or unfair/deceptive practices.

iii) limiting technical development or capital investment to the common detriment or allowing the quality of any goods produced, supplied or distributed, or any service rendered in India to deteriorate.

iv) increasing unreasonably –

a) the cost of production of any goods; or

b) charges for the provision, or maintenance of any services; or

c) the prices for the sale or resale of goods, or the charges for providing services;

d) the profits derived from the production, supply or distribution of any goods or by providing any services.

Unfair Trade Practices

An ‘unfair trade practice’ means a trade practice which, for the purpose of promotingthe sale, use or supply of any goods or the provision of any services, adopts any unfair method or unfair or deceptive practice. Unfair practices would include:

1. ***Falsely representing that***

    - the goods are of a particular standard, quality, quantity, grade, composition, style or model.
    - services are of a particular standard, quality or grade
    - any rebuilt, second-hand, renovated or old goods are new goods
    - the goods or services have sponsorship, approval, performance, characteristics, accessories, uses or benefits which they do not have.

The unfair practices under false or misleading representation would also include the following:

• making a false or misleading representation concerning the need for, or the usefulness of, any goods or services;

• giving to the public any warranty or guarantee of the performance, efficiency or length of life of a product which is not based on adequate and proper tests;

• making to the public a representation in the form that purports to be

- a warranty or guarantee of the goods or services; or

- a promise to replace, maintain or repair an article until it has achieved a specified result;

if such warranty or guarantee or promise is materially misleading or there is no reasonable prospect that it would be fulfilled;

• materially misleading the public about the prices of goods or services;

• disparaging the goods or services or trade of another person through false or misleading facts.

2. False Bargain Price

Publication of advertisement in any newspaper, or otherwise offering goods or services at a bargain price without any intention of offering them at that price for a reasonable period or in reasonable quantity, amounts to an unfair practice.

3. Free Gifts/Prize Schemes

It is an unfair practice:

• to offer gifts or prizes when there is no intention to provide them;

• to create an impression that something is being offered free of charge, when it is fully or partly covered by the price charged;

• to conduct any contest, lottery, game of chance or skill, for promoting the sales or business interest.

4. Sub-standard Quality of Goods

It is an unfair practice to permit sale or supply of goods that do not conform to prescribed standards of performance, composition, contents, design, construction, finishing or packaging, as necessary to prevent or reduce the risk of injury to a person using the goods.

5. Hoarding, Destruction, Refusal

Hoarding or destruction of goods, or refusal to sell them, or provide any services with an intention to raise the cost of those or other similar goods or services is an unfair trade practice.

Restrictive Trade Practices

A restrictive trade practice is one which tends

a) to restrict the competition, or prevent or distort it; or
b) to obstruct the flow of resources, including capital, into the production stream; or
c) to manipulate prices or affect flow of goods and services into the market.

Every agreement falling under any of the following categories was deemed to be an agreement relating to restrictive trade practices was required to be registered in a Register, kept by Director-General, MRTP:

- which restricts persons to whom goods are sold or from whom goods are bought;
- which requires a purchaser of goods, as a condition of purchase, to purchase some other goods;
- which restricts the purchaser from dealing in any goods other than those of the seller or another person;
- which stipulates purchase or sell of goods only at prices or on terms and condition agreed to by the contracting parties;
- which allows concessions or benefits in connection with dealings;
- which stipulates selling of goods on condition that the prices to be charged on re-sale by the purchaser shall be as given by the seller unless it is clearly stated that the prices lower than the prices given by the seller could be charged;
- which provides for restricting supply of any goods, or allocates any area/market for the disposal of the goods;
- which does not permit employment of any method, machinery or process in the manufacture of such goods, or restricts such employment in the manufacture;
- which requires any person to be excluded from any association of the trade;
- which stipulates selling goods at prices designed to eliminate competition; or
- which restricts the number of suppliers; or which stipulates any agreement as to the bids any contracting party can make at an auction for the sale of goods, or any agreement that any contracting party would abstain from bidding at such auction or
- which the Central Government may, by gazette notification, specify as relating to a restrictive trade practice.

In relation to agreement for services also, the provisions as applicable to agreements for production, storage, supply, distribution and control of goods concerning registration would apply.

9.2 The Competition Act, 2002

The Competition Act, 2002, (referred to as the Act in the text that follows) reflects the sea-change that has come about in the world of trade and commerce since 1969 when the MRTP Act came into being. In the changed environment, monopoly per se is not a dreaded word. There is a subtle shift in perception, the overriding concern today is not monopoly but competition. The Act establishes a commission, called the Competition

Commission of India, with the express purpose

- to prevent practices having adverse effect on competition
- to promote and sustain competition in markets.
- to protect the interests of consumers, and
- to ensure freedom of trade carried on by other participants in markets in India and for matters connected with these.

Prohibition of Anti-competitive Agreement

The Act prohibits any enterprise or person (or their associations) from entering into any agreement in respect of production, supply, distribution, storage, acquisition or control of goods or provision of services, which has or can have, an appreciable adverse effect on competition within India.

- An agreement or decision shall be presumed to have an appreciable adverse effect on competition, if it
- determines, directly or indirectly, purchase or sale prices;
- limits or controls production, supply, markets, technical development, investment or provision of services;
- shares the market or source of production or provision of services by way of allocation of geographical area of market, or type of goods or services, or number of customers in the market in a similar way; or
- directly or indirectly results in bid rigging or collusive bidding.

However, if there is such an agreement entered into by way of joint ventures and it increases efficiency in production, supply, distribution, storage, acquisition or control of goods or provision of services, the aforesaid provisions do not apply to it.

Similarly an agreement at different stages of or levels of the production chain in different markets, in respect of production, supply, distribution, storage, sale or price of, or trade in, goods or provision of services shall be prohibited if it causes an appreciable adverse effect on competition in India.

Such agreements include:

- tie-in arrangement, e.g., an arrangement which requires a purchaser of goods to purchase some other goods too.
- exclusive supply arrangement, e.g., one, which restricts the purchaser from dealing in any goods other than those of the seller or any other person.
- exclusive distribution arrangement, e.g., one, which restricts the supply of any goods, or allocates any area/market for sale of the goods.
- refusal to deal, which would include an agreement restricting persons to whom goods are sold or from whom goods are bought.
- resale price maintenance, which would include an agreement which binds the purchaser to sell the goods only at a price stipulated by the supplier, unless it is clearly stated that the resale price charged could be lower than the price stipulated by the original seller.

Abuse of Dominant Position

The Act prohibits abuse of dominant position by an enterprise. An enterprise has a dominant position in the market if it can influence the market in its own favour independently of its competition. The dominant position is abused, if the enterprise imposes unfair or discriminatory conditions (i) in purchase or sale of goods or service, or (ii) in the price in purchase or sale of goods or services. Dominant position is also abused when the enterprise limits or restricts production of goods or provision of services or market for them, or technical or scientific development relating to goods or services to the prejudice of consumers; or

- indulges in practices resulting in denial of market access; or
- makes conclusion of contract subject to acceptance by other parties of supplementary obligations which have no connection with the subject of such contracts; or
- uses its dominant position in one relevant market to enter into, or protect, other relevant market.

Regulation of Combinations

A combination refers to a combination of enterprises or of persons and enterprises resulting from acquisitions, mergers or amalgamations. A combination, in the case of any acquisition, results, if the acquirer and the acquired enterprise jointly have

a) either, in India, the assets of the value of more than Rs.1000 crore, or turn over of more than Rs.3000 crore; or

b) in India or outside India, the combined assets of more than US$ 500 million, or turnover of more than US$ 1500 million.

If the combination results from a group (meaning two or more enterprises) acquiring an enterprise, its aggregate assets in India should be more than Rs.4000 crore or its turnover in India should be more than Rs.12000 crore; or in India or outside India, the aggregate assets of the group should be more than two billion US dollars or its turnover should be more than six billion US dollars.

No person or enterprise shall enter into a combination which has, or may have, an appreciable adverse effect on competition within the relevant market in India and such a combination shall be void. For other combinations, a person or enterprise proposing to enter into combination, may give notice to the Competition Commission disclosing the details of the combination within seven days of (i) approval of the proposal relating to merger or amalgamation by the Board of Directors of the concerned enterprises, (ii) execution of any agreement or other document for acquisition.

The value of assets shall be determined by taking the book value of the assets as shown in the audited books of account of the enterprise, in the financial year

immediately preceding the financial year in which the date of proposed merger falls, as reduced by any depreciation, and the value of assets shall include the brand value, value of goodwill, or value of copyright, patent, permitted use, collective mark, registered proprietor, registered trade mark, registered user, homonymous geographical indication, geographical indications, design or layout-design or similar other commercial rights.

9.3 Industrial Policy and the 12th Five Year Plan

The 12th Five Year Plan was introduced in 2012 amidst a slow economy. The average growth rate during the 11th Five Year Plan was 8 percent which was lower than the target of 9 percent but it was better than the 7.8 percent achieved during the 10th Five Year Plan. The investment in many core areas had slowed down as there were changes in the tax rates which had created confusion in the minds of the investors.

Objectives of the 12th Five Year Plan

1. Increase manufacturing sector growth to 12–14 per cent over the medium term to make it the engine of growth for the economy. The 2 to 4 per cent differential over the medium-term growth rate of the overall economy will enable manufacturing. to contribute at least 25 per cent of the national GDP by 2025.

2. Increase the rate of job creation in manufacturing to create 100 million additional jobs by 2025. Emphasis should be given to creation of appropriate skill sets among the rural migrant and urban poor to make growth inclusive.
3. Increase 'depth' in manufacturing, with focus on the level of domestic value addition, to address the national strategic requirements.
4. Enhance global competitiveness of Indian manufacturing through appropriate policy support.
5. Ensure sustainability of growth, particularly with regard to the environment.

Nature of Industrial Policy

The Question of 'Industrial Policy'

The Government of India needs a strategy to accelerate the growth of the country's manufacturing and industrial sectors to meet the goals and obtain the outcomes mentioned. The concept of 'industrial policy' has varied across countries and also over time. In India, industrial policy becomes assaulted under a stifling system of bureaucratic controls through licenses and quotas for industrial production. There is no doubt that these controls were highly dysfunctional and needed to be dismantled but the mere removal of these controls and reliance on markets alone was not sufficient. The collapse of the Soviet Union and the ascendancy of Western free-market approaches to economic growth which was fashionable for a time in the 1990s implied abandonment of any concept of 'industrial policy' altogether. However, this is not the recipe which delivered rapid industrial growth for many of the post-war success stories, whether we think of Japan or Korea or, more

recently, China. In planning a strategy for rapid

growth of industry in India we need to learn from

these success stories and apply them suitably to our

circumstances.

Paradigms of Industrial Policy

Countries that have succeeded in growing the competitiveness and scale of their manufacturing sectors have adopted different policy approaches. However, a common element in their approaches has been a close coordination between producers and government policymakers, with Governments playing an active role in providing incentives for domestic industrial growth and in relieving constraints on industrial competitiveness. The process by which this coordination has been achieved has differed according to the political structure of each country's economy (Figure 9.1). In Japan the coordination between Government and industry (and within Government) was very successfully orchestrated by MITI in partnership with Japanese industrial associations. In South Korea, the Chaebol and the Government collaborated to create world-class and world-scale winners. In Singapore, the Government identified industries to be developed and created ecosystems (skilled human resources, tax regime, Government incentives and so on) to support growth of competitive enterprises in the country. In China, the large State-Owned Enterprise (SOE) sector has enabled the Chinese Government to adopt a very muscular 'industrial policy'. Along with preferential treatment to domestic companies, large investments in technology development/acquisition, massive investments in infrastructure and restraints on its exchange rate, China's industrial policy has been remarkably successful. Germany's manufacturing sector remains very successful in spite of high labour costs and a strong currency because collaboration between stakeholders in the German industrial system is deeply embedded in policymaking processes and also within industrial enterprises

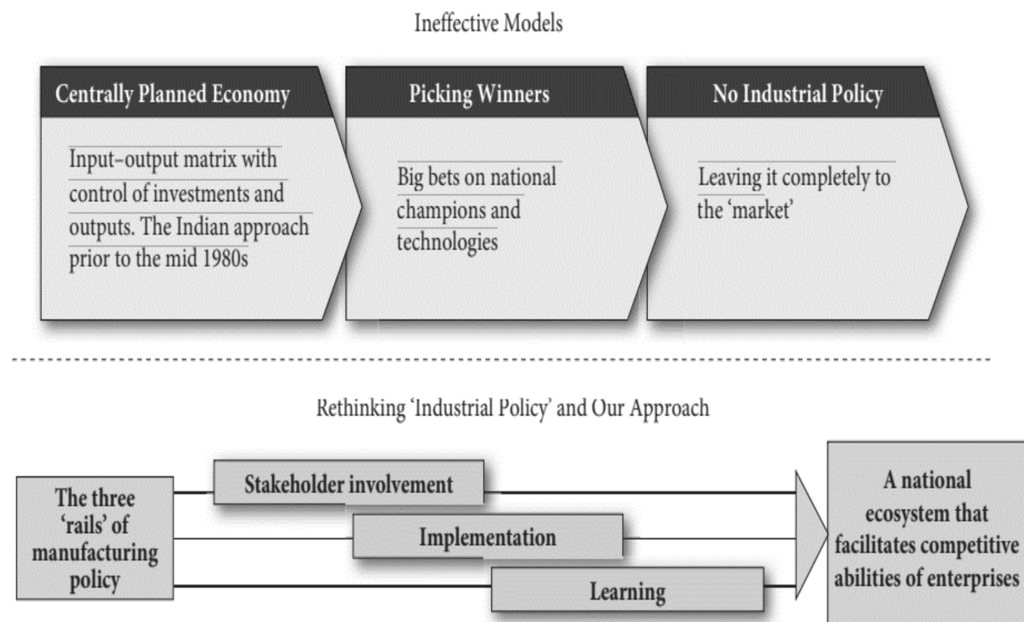

Fig. 9.1 New Approach to Industrial Policy

A deeper analysis of such successes (Japan, Korea, China and Germany) of 'industrial policy' and also of its failures (India, the Soviet Union and some instances in Latin America) reveals the essence of successful industrial policy. Firstly, 'industrial policy' is a web of ongoing changes that facilitates the growth of a competitive industrial/manufacturing ecosystem in the country. Secondly, Governments have a key role in facilitating the process of learning and collaboration between producers and policymakers. Thirdly, and this is key, it is the quality of this process of collaboration and the speed of learning and execution in the system that enables the system to improve its competitiveness faster than other countries' systems. Government policymakers must have the skills and orientation to facilitate and coordinate, rather than to control. Industrial policy will not produce a competitive manufacturing ecosystem if the orientation of the Government and its functionaries is to control and micro-manage. It will also fail if Government and its functionaries do not master the skills and build institutional capabilities for better coordination within Government, smoother collaboration with industry (which must be organised in line with the industrial–political economy of the country, as mentioned before) and, above all, faster learning.

The paradigm we must adopt is to build an ecosystem for rapid learning and capability building, which will encourage entrepreneurship and support innovation, and which will provide the system-wide processes to support collaboration and build stronger value chains with depth. This paradigm requires a change in the mindset of Government functionaries from being 'controllers' to 'facilitators', from 'resource allocators' to 'knowledge managers' and from 'scheme managers' to 'continuous learners'. Essential Features of a Manufacturing Ecosystem that Learns

A dynamic manufacturing ecosystem has three features that enable it to learn and grow.

1. It must have depth (value addition) in manufacturing processes. A manufacturing sector, no matter how large, that is composed mostly of low value addition assembly industries, cannot create new technological capabilities. It may compete on low costs on account of scale and low labour costs, but it can easily lose these advantages to other countries which have even lower labour costs. Also, merely having R&D capabilities, without the wherewithal around them to convert ideas into manufactured products will not enable the growth of manufacturing industries.
2. It must combine four capabilities: human skills, embodied technology in hardware, knowledge (intellectual property) and a large and demanding customer base. All four components grow together to create a productive and competitive industry.
3. It must have a range of different sized firms, especially small and medium sized ones. Small firms provide the first stages for skill development. They take up larger numbers of

people into the industrial workforce with less capital investment, and they provide nurseries for experimentation too. Some of these small firms can grow into specialised, internationally competitive, medium sized firms. Such firms are the backbone of the German industry, and also the strength of India's internationally recognised automotive component, pharmaceutical and IT sectors.

Firms operating in such an ecosystem would be able to flourish in an open competitive global economy. While there is a case for special support for strategically chosen industries for a limited period, the only way the industry can demonstrate competitiveness is to be able to export to global markets within a defined period.

9.4 Privatisation and Disinvestment

Privatisation

What is privatisation? Privatisation involves a transfer of ownership and control

from the public to the private sector, with preference to asset sales.

Privatisation can be accomplished in two ways.

1. The government can sell assets it owns to private buyers.
2. The government can stop providing a service directly and rely on the private sector to deliver the service.

The public enterprises relevant here are revenue-generating entities originally owned or controlled by the state. An example of a revenue-generating entity is a municipal corporation that gets property taxes.

Techniques of Privatisation

Divestiture: The most well-known technique of privatisation is the sale of equity to the general public. This is called divestiture (divestment or disinvestments) and may be complete or partial. That is, the government may sell its entire stake in an enterprise or sell only a certain percentage. This can be done through direct sales and equity offerings.

However, the inadequacy of national stock markets and the lack of domestic capital have sometimes led to a shortage of local buyers, while foreign investors, unable to obtain sound information on thc enterprises offered, often lacked sufficient interest. Furthermore, the direct sales approach may be costly and slow, owing to the complexity of preparing each state asset for sale individually, and then ensuring that buyers observed all contract provisions.

Restitution: Restitution refers to the return of state assets to their former private owners in situations where the government's original acquisition is seen as unjust, such as uncompensated seizure. Restitution, in such cases, it is argued, is essential on moral grounds. Restitution has been an important issue in the transition economies of central and Eastern Europe. Opponents of restitution counter that the process is necessarily selective, and therefore an unsatisfactory way of achieving justice retroactively. As a practical matter, private claims can often be complicated and @awn out, bogging down privatisation unnecessarily. In practice, the transition countries have seldom used restitution, except for Estonia and, to a lesser extent, the Czech Republic.

Management-Employee Buyouts: Under this approach, shares of an enterprise are sold or given to some combination of managers and other employees. The powerful positions of employees and of managers may give this approach the twin advantages of feasibility and political popularity. It is also rapid and easy to implement. Well-structured management-employee buyouts can sometimes lead to efficient results, since the people-who know best about an enterprise, i.e. employees and managers, become the owners.

Nevertheless, experience shows that these buyouts suffer serious disadvantages. Yielding to insider interests often entails large costs in inefficiency and poor management. The new owners may grant excessive wage increases, maintain excessively high employment, and undertake insufficient investment. Insiders may also lack many of the skills necessary to function in a market-oriented economy. Further, the process is seen to be inequitable, handing employees, rather than the population at large, over most of the benefits.

Mass Privatisation: In mass, or equal-access, voucher privatisation, the government generally gives away, or sells for a nominal fee, vouchers that can be used to purchase shares in enterprises. This technique was rarely used elsewhere in the world before the massive transition started in Central and Eastern Europe, but it has proved popular there, particularly in the Czech Republic.

Voucher privatisation helps to overcome the shortage of domestic capital. Voucher schemes can be politically popular because they address the perceived unfairness of other approaches and avoid the charges of a sell-out of national assets to foreigners. The difficulties associated with valuing enterprises before privatisation are also avoided.

Early proponents argued that the fast pace of voucher privatisation would add to the credibility of reform programs and bolster their chance of success. At times, the speed could prevent employees or other interests from mobilising opposition to privatisation. Furthermore, the widespread participation of a country's citizens fosters - a greater understanding of reform and creates a new owner class with a stake in the process.

Mass privatisation has its downside, however. The main risk is that a dispersed ownership structure will lack the focus and power to direct effective corporate management. This, in turn, may scare off potential new sources of capital. In practice, these problems have been partly addressed by pooling ownership interests in investment or mutual funds. The funds, however, do not always have adequate management, control, and supervisory powers. In such cases, voucher privatisation becomes merely ineffective absentee ownership.

Contracting out or leasing out of government services can be another technique of privatisation. For example, a municipal corporation can contract out the ask of garbage collection to a private party. Associated with privatisation usually are processes of liberalisation and deregulation. Liberalisation refers to the introduction/promotion of competition in a traditionally monopolised industry. Deregulation refers to the abolition of statutory barriers to the operation of market forces. For example, the Government of India controls the prices of many commodities through the administered pricing mechanism. If some commodity is taken out of the purview of this mechanism, then this is a deregulatory measure, because the price will now be determined by market forces.

Privatisation in India

Why are public enterprises in India so inefficient? The answer lies in the environment that public enterprises in India operate in, and in effect this environment has on the public enterprise managers' incentives to develop new, better and less expensive products, develop new markets, minimise capital and current costs, and maximize profits. Descriptions which illustrate this environment include: the government's deep involvement in the actual management of public enterprises, with the concerned administrative ministries' tendency to function as if they were a kind of super management on top of the Board of Directors; Parliament's involvement in public enterprises' affairs in several ways, including through numerous questions and enquiries ranging from questions of overall performance and policy issues to the minutest details of day-to-day functioning; and expansion of the horizon of Article 26 of the Constitution to treat even industrial, manufacturing and commercial public enterprises as 'state' and thereby subject them to the various obligations that go with such a treatment.

A few factors seem to have brought the issue of privatisation on the forefront.

They are as under:

1. The monopoly status of public sector enterprises (PSEs) bred inefficiency.
2. Lack of competitiveness affects PSEs performance very adversely.
3. Bureaucracy was also responsible for poor performance of PSEs. It was certainly not always up to turning such enterprises around.
4. Restructuring of the PSEs by way of privatisation became very common in developed countries like UK and U.S.A.
5. A lot of intellectual discussion and debate started on privatisation all over the world and pressure of public opinion also exerted influence.
6. Some aid giving agencies even started forcing the pace by linking aid with privatisation.

7. Suggestions from management of public sector enterprises themselves led to fresh thinking towards privatisation.

Disinvestment

It would be preferable to privatise a public enterprise when it loses its comparative advantage. So long as public enterprise rather than private enterprise is found to be a superior means of contributing to national well-being and so long it does not suffer from a comparative disadvantage, it should be preferred to other forms. The comparative advantage is to be measured in terms of the commercial returns, social returns and a desired trade-off between them. It would be prudent to trifurcate the public enterprise sector into

i. those which will be allowed to die,
ii. those to be divested and
iii. those to be retained in the public sector.

A properly constituted committee could go about this exercise within a tight time frame and get a list of those enterprises which should clearly be divested. A virtual automatic selection category would consist of those enterprises whose presence in the public sector has no economic justification whatsoever.

Disinvestment in India

For the first four decades after Independence, the country was pursuing a path of development in which the public sector was expected to be the engine of growth. However, the public sector overgrew itself and its shortcomings started manifesting in low capacity utilisation and low efficiency due to over manning, low work ethics, over capitalisation due to substantial time and cost over runs, inability to innovate, take quick and timely decisions, large interference in decision making process etc. Hence, a decision was taken in 1991 to follow the path of Disinvestment.

Period from 1991-92 - 2000-01

The change process in India began in the year 1991-92, with 31 selected PSUs disinvested for Rs.3,038 crore. In August 1996, the Disinvestment Commission, chaired by G V Ramakrishna was set up to advice, supervise, monitor and publicize gradual disinvestment of Indian PSUs. It submitted 13 reports covering recommendations on privatisation of 57 PSUs. Dr R.H.Patil subsequently took up the chairmanship of this Commission in July 2001.However, the Disinvestment Commission ceased to exist in May 2004.

The Department of Disinvestment was set up as a separate department in December 1999 and was later renamed as Ministry of Disinvestment from September, 2001. From May 2004, the Department of Disinvestment became one of the Departments under the Ministry of Finance.

Against an aggregate target of Rs. 54,300 crores to be raised from PSU disinvestment from 1991-92 to 2000-01, the Government managed to raise just Rs. 20,078.62 crore (less than half). Interestingly, the government was able to meet its annual target in only 3 (out of 10) years. In 1993-94, the proceeds from PSU disinvestment were nil over a target amount of Rs. 3,500 crores.

The reasons for such low proceeds from disinvestment against the actual target set were:

i. Unfavorable market conditions
ii. Offers made by the government were not attractive for private sector investors
iii. Lot of opposition on the valuation process
iv. No clear-cut policy on disinvestment
v. Strong opposition from employee and trade unions
vi. Lack of transparency in the process
vii. Lack of political will

This was the period when disinvestment happened primarily by way of sale of minority stakes of the PSUs through domestic or international issue of shares in small tranches. The value realized through the sale of shares, even in blue chip companies like IOC, BPCL, HPCL, GAIL & VSNL, however, was low since the control still lay with the government.

Most of these offers of minority stakes during this period were picked up by the domestic financial institutions. Unit Trust of India was one such major institution.

Period from 2001-02 - 2003-04

This was the period when maximum number of disinvestments took place. These took the shape of either strategic sales (involving an effective transfer of control and management to a private entity) or an offer for sale to the public, with the government still retaining control of the management. Some of the companies which witnessed a strategic sale included:

- Bharat Aluminium Co. Ltd.
- CMC Ltd.
- Hindustan Zinc Ltd.
- Hotel Corp.Of India Ltd. (3 Properties: Centaur Hotel,Juhu Beach, Centaur Hotel Airport,Mumbai & Indo Hokke Hotels Ltd.,Rajgir)
- HTL Ltd.
- IBP Co. Ltd.
- India Tourism Development Corp. Ltd.(18 Hotel Properties)
- Indian Petrochemicals Corp. Ltd.
- Jessop & Co.Ltd.
- Lagan Jute Machinery Co.Ltd.,The
- Maruti Suzuki India Ltd.
- Modern Food Industries (India) Ltd.
- Paradeep Phosphates Ltd.
- Tata Communications Ltd.

The valuations realized by this route were found to be substantially higher than those from minority stake sales.

During this period, against an aggregate target of Rs. 38,500 crores to be raised from PSU disinvestment, the Government managed to raise Rs. 21,163.68 crore.

Period from 2004-05 - 2008-09

The issue of PSU disinvestment remained a contentious issue through this period. As a result, the disinvestment agenda stagnated during this period. In the 5 years from 2003-04 to 2008-09, the total receipts from disinvestments were only Rs. 8515.93 crore.

2009-10 to 2020-21

A stable government and improved stock market conditions initially led to a renewed thrust on disinvestments. The Government started the process by selling minority stakes in listed and unlisted (profit-making) PSUs. This period saw disinvestments in companies such as NHPC Ltd., Oil India Ltd., NTPC Ltd., REC, NMDC, SJVN, EIL, CIL, MOIL, etc. through public offers.

However, from 2011 onwards, disinvestment activity slowed down considerably. As against a target of Rs.40,000 crore for 2011-12, the Government was able to raise only Rs.14,000 crore. However, the subsequent years saw some improvement and the Government was able to raise Rs. 23,857 crores against a target of Rs. 30,000 crores (Revised Target: Rs. 24,000 crore) in 2012-13 and Rs. 21,321 crores against a target of Rs. 54,000 (Revised Target: Rs. 19,027 crore) in 2013-14. The achieved target dropped to Rs. 24,338 crores against a target of Rs. 58,425 crores in 2014-15. In 2015-16 the Government was able to raise Rs. 32,210 crores against a target of Rs. 69,500 crores (Revised Target: Rs. 25,312 crore) and Rs. 46,378 crores against a target of Rs. 56,500 (Revised Target: Rs. 45,500 crore) in 2016-17. In 2017-18, some steep improvement was seen, and the Government was able to raise Rs. 1,00,642 crores against a target of Rs. 72,500 crores (Revised Target: Rs. 1,00,000 crore) and Rs. 87,513 crores against a target of Rs. 80,000 in 2018-19. In 2019-20 the Government was able to raise Rs. 50,294 crores against a target of Rs. 90,000 crores (Revised Target: Rs. 1,05,000 crores, further the Target Revised downward to Rs.65,000 crore) in 2019-20.

Further, the achieved target dropped to Rs. 32,742 crores against a target of Rs. 2,10,000 crores (Revised Target: Rs. 32,000 crores in 2020-21.

2021-22 onwards

The NDA Government has set an ambitious disinvestment target of Rs. 1,75,000 crores. As such, 2021-22 is likely to see some big-ticket disinvestments taking place.

9.5 MSME Sector

What is a MSME?

The term 'MSME' is normally used to describe small industrial or business units in private sector. Considering the global trend of classifying the MSME sector, the definition differs widely across jurisdictions and depends upon the government policies of the country. As per International Finance Corporation (2014) report, among the 267 definitions used by different institutions in 155 economies, the most widely used variable for defining an MSME is the number of employees. Other variables commonly found in MSME definitions are turnover as well as value of assets, with few other variables being the loan size, formality, years of experience, type of technology, size of the manufacturing space, and initial investment amount, among others. The latest definition as per the government of India is given in fig. 9.2.

With effect from 1st July 2020

Classification	Micro	Small	Medium
Manufacturing Enterprises and Enterprises rendering Services	Investment in Plant and Machinery or Equipment : Not more than Rs. 1 crore and annual turnover not more than Rs. 5 crore	Investment in Plant and Machinery or Equipment : Not more than Rs. 10 crore and annual turnover not more than Rs. 50 crore	Investment in Plant and Machinery or Equipment : Not more than Rs. 50 crore and annual turnover not more than Rs. 250 crore

Fig. 9.2 Classification of MSME

Schemes of MSME

The schemes that are run by the Ministry can be classified into 9 heads. The classification is on the basis of the various facets required for the development of this sector.

1. Prime Minister Employment Generation Programme and Other Credit Support Schemes
2. Development of Khadi, Village and Coir Industries
3. Technology Upgradation and Quality Certification
4. Marketing Promotion Schemes
5. Entrepreneurship and Skill Development Programme
6. Infrastructure Development Programme
7. Schemes of Surveys, Studies and Policy Research
8. National SC/ST Hub
9. Scheme of Information Education and Communication

Summary

This unit chronicles the development of the industrial sector of the country and how the global changes had an impact on policy making. The MRTP Act was enacted to curb the growth of monopolies in the country at a time when import substitution was the main objective of the country. As the policies were liberalised, the upper limit of monopoly was revised to accommodate bigger organisations. In 2002, the Competition Act was introduced to regulate competition in the market considering the global environment. The liberalisation policy that was initiated in 1985

caught traction after the New Economic Policy of 1991 which also brought in privatisation and globalisation. One of the preferred tool is disinvestment which started in India in 1996 when the ministry was formed.

Keywords

Nationalisation: The process of bringing a private sector unit under government ownership and management.

Liberalisation: The introduction/promotion of competition in a traditionally monopolised industry.

Deregulation: The abolition of statutory barriers to the operation of market forces.

Transition Economies: Economies making the transition from socialism to capitalism, e.g. Poland, Hungary, the Czech Republic.

Self Assessment

1. As per the industrial licensing policy of 1970 the industries were divided into how many parts.

A. Six

B. Seven

C. Eight

D. Nine

2. The setting up of joint sector was the recommendation of which committee.

A. Jha committee

B. Dutt committee

C. Kothari committee

D. Rangrajan committee

3. Which of the following is not considered as monopoly practice?

A. Unreasonable price level

B. Preventing competition

C. Unreasonably increasing cost of production

D. Spending on advertisement

4. Competition Act, 2002 replace which act?

A. FERA

B. FEMA

C. MRTP

D. All the above

5. Has the BCCI summoned by the Competition Commission of India for misusing its position n?

A. True

B. False

6. Which of them is not a technique of privatisation?

A. Divestiture

B. Mass privatisation
C. Restitution
D. Inviting bids

7. How many firms were disinvested by the government in 1991-92?
A. Thirty-one
B. Fifty-one
C. Eleven
D. Twenty-one

8. Did restitution take place in India?
A. True
B. False

9. In which of the following method is vouchers sold to the general public by the government?
A. Divestiture
B. Mass privatisation
C. Restitution
D. Contracting out

10. In which year was the disinvestment commission formed in Indi?
A. 1991
B. 1994
C. 1996
D. 1999

11. As per the new classification of MSME sector, what should be the upper limit of annual turnover for a firm to classify as a micro unit.
A. 5 crores
B. 50 crores
C. 250 crores
D. None of the above

12. How much was the contribution of MSME sector to the GDP of the country in 2018-19?
A. 29.34%
B. 29.48%
C. 29.75%
D. 30.27%

13. As per the 73rd round of NSSO, what is the number of MSME in the manufacturing sector?
A. 633.88 lakh
B. 196.65 lakh
C. 0.03 lakh
D. 230.35 lakh

14. How much in principle loan is given under the 59-minute loan portal?
A. Rs. 50 lakhs

B. Rs. 1 crore
C. Rs. 2 crores
D. Rs. 3 crores

15. What is the investment limit for small units as per the new classification guidelines of MSME units?
A. Rs. 1 crore
B. Rs. 10 crores
C. Rs. 50 crores
D. Rs 100 crores

Answers for Self Assessment

1.	D	2.	B	3.	D	4.	C	5.	A
6.	D	7.	A	8.	B	9.	B	10.	C
11.	A	12.	D	13.	B	14.	B	15.	B

Review Questions

1. Discuss restrictive trade practices as given in the MRTP Act, 1969.
2. Discuss 'anti-Competitive agreements' and 'abuse of dominant position' in the context of the Competition Act, 2002. What can the Competition Commission do if it finds abuse of dominant position taking place?
3. What is meant by 'Combination'? What factors are to be taken into account in an inquiry into combination?

Further Readings

B R Tomlinson, The Economy of Modern India: From 1860 to The Twenty First Century, Cambridge University Press.

Tirthankar Roy, The Economic History of India: 1857-1947, Oxford University Press

Unit 10 Service Sector

CONTENTS

Objectives

Introduction

10.1 Composition of Service Sector in India

10.2 Trade in Service Sector of India

10.3 FDI Inflow in Service Sector

10.4 Liberalisation Policy in the Service Sector

10.5 Regulation of the Service Sector

10.6 Evaluation of the Policy Reforms

Summary

Keywords

Self Assessment

Answers for Self Assessment

Review Questions

Further Readings

Objectives

Understand the service sector of India

Analyse foreign trade in services

Analyse FDI in service sector

Evaluate the liberalisation policy in service sector in India

Introduction

The economy has basically three sectors. First, the primary sector comprising of agriculture, fishing, and extraction such as mining. Second sector is the secondary sector comprising of manufacturing. Third sector is the tertiary sector also referred to as service sector.

The basic characteristic of service sector is the production of services rather than end-products. Services are intangible goods which include attention, advice, experience, and discussion. These are used to enhance productivity, performance, potential and sustainability. The production of information is also regarded as a service. However, some economists like to classify services relating to the information service in a fourth sector, now known as the quaternary sector i.e., the sector that comes after the third and just before the fifth in position.

The tertiary sector involves the provision of services to other businesses. Services may involve the transport, distribution and sale of goods from producer to a consumer, pest control, entertainment or hotel industry. The goods are transformed in the process of providing the service. However, the focus is on people interacting with people and serving the customer rather than transforming physical goods.

The composition of GDP of an economy explains the relative significance of the different producing sectors. When a country is in a state of underdevelopment, primary sector makes the largest contribution to the national income. As the country grows and gets developed, the contribution of the industrial and service sectors gradually increases.

The explanation for this shift is as follows:

Income elasticity of demand for agricultural products is relatively low; as a result, with rising levels of income, the demand for agricultural products relatively declines and that for industrial goods increases and, after reaching a reasonably high level of income, demand for services increases sharply. Accordingly, the shares of different sectors in the national product get determined by the changes in the pattern of demand. On the supply side, agriculture, being mainly dependent on a fixed factor of production, namely land, faces a limit on its growth and is subject to early operation of the law of diminishing returns. Industry, specially manufacturing, on the other hand, offers large scope for use of capital and technology, which could be augmented almost without limit with human effort. The same applies to services where application of technologies seems to offer much larger scope.

10.1 Composition of Service Sector in India

Central Statistical Organisation (CSO) under the Ministry of Statistics and Planning Implementation estimates the National Income of the country. As per the CSO, there are certain industries and activities that are classified in the service sector.

1. Trade, Hotels and Restaurants (THR)
   - 1.1 Trade
   - 1.2 Hotels and Restaurants
2. Transport, Storage and Communication
   - 2.1 Railways
   - 2.2 Transport by other Means
   - 2.3 Storage
   - 2.4 Communication
3. Financing, Insurance, Real Estate and Business Services
   - 3.1 Banking and Insurance
   - 3.2 Real Estate, Ownership of Dwellings and Business Services
4. Community, Social and Personal Services
   - 4.1 Public Administration and Defence (PA & D)
   - 4.2 Other Services

Table 10.1 GVA of Service Sector

Sector	Share in GVA (per cent)	Growth (per cent YoY)					
	2020-21 (AE)	2018-19 (1st RE)	2019-20 (PE)	2020-21 (AE)	2020-21 (H1)	2020-21 Q1	2020-21 Q2
Total Services (Excluding construction)	54.3	7.7	5.5	−8.8	−15.9	−20.6	−11.4
Trade, hotels, transport, communication & services related to broadcasting	15.4	7.7	3.6	−21.41	−31.5	−47.0	−15.6
Financial, real estate & professional services	22.2	6.8	4.6	−0.82	−6.8	−5.3	−8.1
Public administration, defence & other services	16.7	9.4	10.0	−3.68	−11.3	−10.3	−12.2

Source: CSO

10.2 Trade in Service Sector of India

Trade in services records the value of services exchanged between residents and non-residents of an economy, including services provided through foreign affiliates established abroad. This indicator is measured in million USD and percentage of GDP for exports, imports and net trade. Services include transport (both freight and passengers), travel, communications services (postal, telephone, satellite, etc.), construction services, insurance and financial services, computer and information services, royalties and license fees, other business services (merchanting, operational leasing, technical and professional services, etc.), cultural and recreational services, and government services not included in the list above. Trade in services drives the exchange of ideas, know-how and technology, although it is often restricted by barriers such as domestic regulations. All OECD countries compile their data according to the 2008 System of National Accounts (SNA).

Opportunities of Trade for India

Over the past two decades, the service sector has replaced agriculture as the dominant sector in India. The service sector's share in India's GDP has risen from 36 per cent in 1980-81 to around 56 percent in 2002-03 while the share of the primary sector has fallen over this period, from 38 per cent to 24 per cent. The share of manufacturing has remained stagnant at about 22 per cent of GDP.

India has witnessed considerable growth in service sector trade, particularly during 1990s. Net inflows of invisibles stood at $16 billion in 2002-03. Net invisibles receipts from non-factor services were an estimated $ 6 billion and net receipts from software services stood at $8.8 billion in 2002-03.8

The service sector accounts for about one quarter of total trade in goods and services, with services exports and imports each constituting about 25 per cent of total exports and total imports, respectively. Close to 80 per cent of this trade is in transport, travel, and other business services.9 The most notable expansion has been in the software services sector. Exports of software services have risen from a few hundred million US dollars in the early 1980s to around $ 9.6 billion in 2003-03 and are expected to reach $ 50 billion by 2008.10 Today, India's presence as well as its future potential in the global software industry is well recognized, at home and abroad. In several other areas such as construction and engineering services, health services, telecommunications, and financial services, there is growing recognition in India and abroad of the country's trade and investment potential.

India's services trade has been a major driver of its exports over the past two decades. The country has emerged among the fastest growing nations in global services trade. This sector has not only attracted significant foreign investment flows but also contributed significantly to exports as well as provided large-scale employment. India's services sector covers a wide variety of activities such as trade, hotels and restaurants, transport, storage and communication, financing, insurance, real estate, business services, community, social and personal services, and services associated with construction. The services sector is the key driver of India's economic growth. It contributed 54.17% of India's gross value added (GVA) at current prices in 2018-19.

Table 10.2 India's Trade in Services

Year	Exports	Imports	Trade balance
2014	157.20	128.36	28.83
2015	156.28	123.57	32.71
2016	161.82	133.53	28.29
2017	185.29	154.60	30.70
2018	205.11	176.58	28.52

Source: *ITC Trade Map, value in US$ billion*

India's export of services has shown an increasing trend from 2014-18, except for a small dip in 2015 whereas imports have also shown an increase from US$ 128.36 billion in 2014 to US$ 176.58 billion

in 2018 with a trade surplus in the above period. The trade surplus has shown fluctuations in the past five years.

India's services exports are majorly destined to USA, UK and Japan.

Fig. 10.1 India Trade in Services

India's Export of Services

India's services exports have increased from US$ 157.20 billion in 2014 to US$ 205.11 billion in 2018, with the growth in commercial services from US$ 156.61 billion in 2014 to US$ 204.48 billion in 2018.

The other business services segment has shown a remarkable increase from US$ 48.46 billion in 2014 to US$ 64.93 billion in 2018 followed by another major category of telecommunications, computer and information services from US$ 54.53 billion in 2014 to US$ 58.25 billion in 2018.

The travel services has also shown an increase, while transport services have hovered around US$ 18.5-19 billion in 2014 and 2018. All the other services have shown an increase except financial service which has shown a slight decline.

India's Import of Services

India's imports of services have increased from US$ 128.36 billion in 2014 to US$ 176.58 billion in 2018. Commercial services rose from US$ 127.40 billion in 2014 to US$ 175.45 billion in 2018.

Travel services imports have also increased from US$ 14.59 billion in 2014 to US$ 21.31 billion in 2018. In addition to this, services not allocated have also shown an increase in imports from India.

Transport and other business services has also increased while financial services has shown a slight decline.

Table 10.3 India's Export in Services

Code	Service label	2014	2015	2016	2017	2018
S	All services	157.20	156.28	161.82	185.29	205.11
SOX	Memo item: Commercial services	156.61	155.72	161.23	184.67	204.48
10	Other business services	48.46	50.10	54.66	59.87	64.93
9	Telecommunications, computer, and information services	54.53	55.05	53.80	54.38	58.25
4	Travel	19.70	21.01	22.43	27.37	28.57
SN	Services not allocated	3.47	4.37	3.68	14.39	19.43
3	Transport	18.60	14.32	15.18	16.98	19.00
7	Financial services	5.64	5.34	5.07	4.49	5.43
5	Construction	1.61	1.48	2.08	2.28	3.18
6	Insurance and pension services	2.28	1.99	2.13	2.46	2.58
11	Personal, cultural, and recreational services	1.27	1.27	1.40	1.47	1.88
8	Charges for the use of intellectual property n.i.e.	0.66	0.47	0.52	0.66	0.78
12	Government goods and services n.i.e.	0.58	0.56	0.58	0.62	0.63
1	Manufacturing services on physical inputs owned by others	0.20	0.17	0.13	0.11	0.24
2	Maintenance and repair services n.i.e.	0.19	0.16	0.15	0.22	0.21

Source: *ITC Trade Map; values in US$ billion*

10.3 FDI Inflow in Service Sector

India improved its position from 12th in 2018 to 9th in 2019 in the list of the world's largest FDI recipients according to the latest World Investment Report 2020 by United Nations Conference on Trade and Development (UNCTAD). FDI into India recorded almost 17 per cent jump during April-September 2020 over the corresponding period last year, despite the global slowdown, the COVID-19 pandemic, lockdown measures and supply chain disruptions. Services sector1, being the largest recipient of FDI in India, witnessed a strong growth during April-September 2020.

The gross FDI equity inflows (excluding re-invested earnings) into the services sector jumped 34 per cent YoY during April-September 2020 to reach US$ 23.61 billion, accounting for almost four-fifth of the total gross FDI equity inflows into India during this period (Table 10.5). The jump in FDI equity inflows was driven by strong inflows into the 'Computer Software & Hardware' sub-sector, wherein FDI inflows increased to US$ 17.55 billion which is over 336 per cent higher over the corresponding period last year. High growth in FDI inflows was also present in subsectors such as 'Retail Trading', 'Agriculture Services', and 'Education'.

Table 10.4 India's Import in Services

Code	Service label	2014	2015	2016	2017	2018
S	All services	128.36	123.57	133.53	154.60	176.58
SOX	Memo item: Commercial services	127.40	122.69	132.85	153.96	175.45
3	Transport	58.90	52.26	47.95	57.06	66.74
10	Other business services	26.87	29.81	32.74	35.44	38.71
4	Travel	14.59	14.84	16.38	18.44	21.31
SN	Services not allocated	5.10	5.97	12.26	14.43	16.83
8	Charges for the use of intellectual property n.i.e.	4.85	5.01	5.47	6.52	7.91
9	Telecommunications, computer, and information services	4.32	3.80	4.75	6.07	7.09
6	Insurance and pension services	5.88	5.23	5.07	6.29	6.75
7	Financial services	4.12	3.12	5.02	5.80	4.04
11	Personal, cultural, and recreational services	1.39	1.37	1.89	2.14	2.54
5	Construction	1.13	0.96	0.95	1.22	2.49
12	Government goods and services n.i.e.	0.96	0.88	0.68	0.64	1.13
2	Maintenance and repair services n.i.e.	0.22	0.31	0.32	0.51	1.00
1	Manufacturing services on physical inputs owned by others	0.03	0.03	0.05	0.04	0.04

Source: *ITC Trade Map; values are in US$ billion*

10.4 Liberalisation Policy in the Service Sector

Features of Reforms

Some of the important features of the reforms process have been as follows:

i) The approach towards reforms has been cautious, with an appropriate sequencing of measures, complementary reforms across sectors (for example, the monetary, fiscal and external sectors) and the development of financial institutions and markets.

ii) The pace and sequencing of liberalisation has been responsive to domestic developments, especially in the monetary and financial sectors, and the evolving international financial architecture.

iii) The approach to reform was 'gradual but steady', rather than a 'big bang' approach.

iv) The major thrust driving the reform process was the quest for higher growth and efficiency, along with macro-economic stability. At the same time, the reforms had to be 'inclusive', in the sense that the benefits of reforms were to be shared by all sections, in particular the vulnerable ones.

Table 10.5 FDI Inflows in Indian Service Sector

Services Sub-sectors	Share in Gross FDI Equity Inflows into Services sector in 2019-20 (per cent)**	Gross FDI Equity Inflows (US$ million)			
		2018-19	2019-20	April-Sep 2019	April-Sep 2020
Financial, Business, Outsourcing, R&D, Courier, Tech Testing & Analysis	9.54	9,158	7,854	4,455	2,252
Computer Software & Hardware	74.34	6,415	7,673	4,025	17,554
Trading	4.02	4,462	4,574	2,143	949
Telecommunications	0.03	2,668	4,445	4,280	7
Information & Broadcasting	0.68	1,252	823	196	161
Hotel & Tourism	1.20	1,076	2,938	859	283
Hospitals & Diagnostic Centers	0.69	1,045	635	376	163
Education	2.56	777	3,245	216	604
Retail Trading	5.21	443	472	243	1,230
Consultancy Services	0.46	411	1,047	473	110
Sea Transport	0.61	279	199	173	144
Air Transport	0.41	191	918	114	97
Agriculture Services	0.25	88	46	23	60
Gross FDI Equity Inflows into Services Sector (US$ million)		28,265	34,868	17,577	23,612
Change from Previous Year (per cent YoY)		-2.4	23.4	33.1	34.3
Gross FDI Equity Inflows into India (US$ million)		44,366	49,977	26,096	30,004
Share of Services Sector in Gross FDI Equity Inflows (per cent)		63.7	69.8	67.4	78.7

Source: Department for Promotion of Industry and Internal Trade (DPIIT).
Note: *Excludes re-invested earnings.

Second Generation Service Sector Policy Reforms

As we are in the second decade of the twenty-first century, it is necessary now to launch the new wave of reforms or what may also be called Operation 2-G.

One set of reforms becomes outdated after its implementation and with passage of time. Second generation reforms is about getting into the details. By definition, it is tedious and more difficult. The first phase of reforms was relatively easy as the required changes in trade, finance and fiscal areas were known. In the second phase, issues of equity, regional and sectoral allocation, good governance, institutional changes, etc. will become more prominent. Hard decisions on competition policy, labour policy, disinvestment and prvatisation will have to be taken.

The nature of the needed measures are well known but efforts to implement them are stalled by fierce opposition from the well-to-do and the middle classes (which benefit most from huge implicit subsidies on public services as well as the opportunities arising from globalisation), middle and large peasants (who benefit from subsidised inputs and artificially high support prices), from employees of the public sector (who are loath to give up their sinecures) and from State and Central level politicians (whose control over public resources gives them immense scope for political and personal patronage).

The first generation reforms were essentially crisis-driven. This time round we can have consensus-driven reforms so that we can act in anticipation of a crisis which would definitely visit upon us if present trends are allowed to continue. We will need to improve the quality of reforms, per se. This requires good analysis to identify the critical bottlenecks to higher growth and poverty reduction, innovative design of policy, taking account of socio-political constraints and supportive institutional changes. These steps improve the efficiency and sustainability of reforms.

	Stage 1	Stage 2
Priorities	• Reduce inflation • Restore growth • Dismantle institutions of protectionism and statism	• Improve social conditions • Increase international competitiveness • Maintain macro-economic stability
Reform Strategy	• Change macroeconomic rules • Reduce size and scope of the State	• Boost competitiveness of the private sector • Reform production, financing and delivery of health care, education, and other public services
Typical Instruments	• Drastic budget cuts and tax reform • Price liberalisation • Trade and foreign investment liberalisation • Private sector deregulation • 'Easier' privatisations	• Reform of labour markets • Restructuring of government • Upgrading regulatory capacities • Sectoral conversion and restructuring 'Complex' privatisations • Restructuring relations between States and Central government
Public Impact of Reforms	• Immediate • High visibility	• Medium and long-term • Low public visibility
Administrative Complexity of Reforms	• Moderate to low	• Very High
Nature of Political Costs	• Temporary corrections widely distributed among population	• Permanent elimination of special advantages for specific groups

10.5 Regulation of the Service Sector

The paradox of a free market system is that it requires tough regulations to ensure freedom and fairness. Independent regulation has become a part of the language of economic reforms. Regulation in its broadest sense can be defined as "establishing specific rules of behaviour, or regulatory aspects per se, monitoring or tracking observance of the compliance with special rules in the overall behaviour along with disincentives and penal provisions for non-compliance,

Regulations should ensure that—

i) Only sound, serious players enter the sectors.

ii) There is transparency in their working.

iii) No restrictive practices are resorted to by them.

iv) Minimum prescribed standards of performance are adhered to in production and supply.

v) Prices charged are consistent with development of the sector.

But the nature of regulations in a liberalised economy is of a different kind. Its principal characteristics can be identified as follows:

a. The regulatory function should have a sharp objective of fostering fair competition and correcting market deficiencies and irregularities with a view to bring about healthy growth of the sector and protection of participants.

b. The regulatory body should be autonomous and fragmentation of regulating agencies and laws should be avoided.

c. While enactments empowering a regulatory body are important, the practices of regulations as well as the organisation of the regulatory body are much more so.

d. No amount of regulation can be a substitute for efficient and honest management of regulated entities and for an internal system of checks and balances.

Any regulatory framework would need to be clear about its objectives, coverage, operational effectiveness, skills required and accountability and harness the strengths of the existing regulatory infrastructure. The test of effective regulation lies in creating the right incentives for good behaviour and promotion of competition while staying clear of the perils of 'micro-management'.

In short, what we are advocating is the need for removing chains, but putting 'watchdogs' in order, with the qualifying remark that over-regulation drives away the goose that lays golden eggs Limitations of Regulation

Regulation cannot always solve problems it is meant to solve.

a) Regulation can go haywire or be ineffective if it is applied without thinking

things through.

b) It becomes ineffective if it is caught in what is known as 'regulatory capture'.

This happens when business interests which the watchdog is supposed to regulate turn around and begin exercising influence on regulators. The obvious reason why this should happen is corruption. However, there are instances of regulatory capture and failure that can also be due to political interference, poorly drafted legislation, the lack of clarity of mandate, and, of course, incompetence and oversight.

Most of these problems dog regulation in India presently. A large number of independent regulatory authorities have been appointed, e.g., SEBI to regulate capital markets, RBI to regulate financial markets, Telecom Regulatory Authority of India to regulate telecommunication business, 'Electricity Regulatory Authority at Central as well as State levels to regulate power sector, Tariff Authority of Major Ports to regulate ports, Insurance Regulatory and Development Authority to develop insurance sector, Petroleum and Natural Gas Regulatory Board for the petroleum and gas sector, National Pharmaceutical Pricing Authority for drugs, Pension Fund Regulatory and Development Authority to regulate pension funds, Forward Markets Commission to regulate commodities markets, etc. Given the growing number of regulators in India, the varying statutes of these regulators both at the Central and State level and their approaches to regulation of various sectors, the government is in process of framing of a national approach towards regulation.

10.6 Evaluation of the Policy Reforms

Of the three sectors of the economy the biggest benefactor of the reform measures has been the services sector.

As a result, the share of the service sector in India's GDP has been continuously rising. The service sector has become the dominant sector of the economy. The growth of service sector, however, has not been smooth. It has, from time to time, come against strong barriers and boulevards; these have involved legislative amendments, bureaucratic interventions and judicial reviews. These have involved policy changes and reforms. We will have a brief review of the major policy issues facing the service sector.

Summary

The service sector in India is contributing the maximum in terms of GVA of the country. After the new economic reforms of 1991, the service sector has grown at the very rapids pace. the opportunities in the service sector have increased in terms of trade as exports have grown up immensely. The telecom sector banking sector insurance sector Audi pioneers are the pioneers of the service sector. Two phases of reforms have been introduced in the service sector. The first phase was conventional, and the reforms were easy to implement. on the other hand, the second phase of reforms for more intricate and looked at the complex issues faced by this sector. In terms of FDI flow into this sector, the country is ranked nine in the world in 2019.

Keywords

Export: The process of sending goods and services manufactured in one country to another country in exchange of money.

Import: The process of buying goods and services produced by other countries in exchange for money.

Service Sector: The basic characteristic of service sector is the production of services rather than end-products. Services are intangible goods which include attention, advice, experience, and discussion

FDI Inflow: A foreign direct investment (FDI) is a purchase of an interest in a company by a company or an investor located outside its borders. Generally, the term is used to describe a business decision to acquire a substantial stake in a foreign business or to buy it outright in order to expand its operations to a new region. FDI Inflow is when it comes into a country.

Self Assessment

1. Which of the following does not fall in the category of Service sector as per the National Income Statistics account?

A. Trade, hotel, restaurants
B. Railways
C. Communication
D. None of the above

2. What was the contribution of service sector to the GDP of India in FY 2020?

A. 51%
B. 53%
C. 55%
D. 57%

3. Which of the following is the highest employment generating industry?

A. Finance
B. Insurance
C. Trade
D. Hotel and restaurants

4. Which of the following economic activity is not considered in the service sector?

A. Banking
B. Teaching
C. Bee keeping
D. Insurance

5. What state (UT) has the highest percentage of service sector contributing to its economy?

A. Sikkim
B. Gujarat
C. Andaman and Nicobar
D. Chandigarh

6. The 100% limit of FDI in the telecommunication sector is by the

A. Automatic route
B. Government route
C. Automatic route + government route
D. None of the above

7. What is the current value of trade from invisibles?

A. $1692

B. $84922

C. $81344

D. $1789

8. In which year the share of services in GDP was maximum?

A. 2011

B. 2013

C. 2016

D. 2020

9. What is the percentage share of travel in total services exports?

A. 12.3

B. 32.1

C. 23.1

D. 11.6

10. What was the rank of India in the latest World Investment Report 2020 by United Nations Conference on Trade and Development (UNCTAD)?

A. 12th

B. 1st

C. 9th

D. 3rd

11. What is the limit of FDI in the telecommunication sector?

A. 49% by automatic route

B. Above 49 % by automatic route

C. Both the above

D. None of the above

12. What is the limit of FDI in insurance sector?

A. 49%

B. 51%

C. 74%

D. 100%

13. How much is the state luxury tax?

A. 2%

B. 18%

C. 28%

D. None of the above

14. What is the limit of FDI in banking sector?

A. 20%

B. 49%

C. 51%

D. Different for PSB and private bank

15. What is the limit of FDI in PSBs?
A. 20%
B. 49%
C. 51%
D. 74%

Answers for Self Assessment

1.	D	2.	C	3.	A	4.	C	5.	D
6.	D	7.	B	8.	C	9.	A	10.	C
11.	C	12.	C	13.	B	14.	D	15.	A

Review Questions

1. What is the importance of service sector in Indian economy?
2. Trade is important for all the countries to build its foreign exchange reserves. Evaluate this statement in light of the service sector of India.
3. How the FDI in service sector of India helped the development of the tertiary sector of the economy?
4. Which sector within the service sector has grown in recent years? What are the reasons behind its growth?
5. If a third round of reforms are to be introduced in the service sector, what changes would you suggest and why?

Further Readings

The Indian Economy by Nilanjan Banik, Sage Publications

The Indian Economy by Dutt And Sundharam, S. Chand & Company

Unit 11: Fiscal Policy

CONTENTS

Objectives

Introduction

11.1 Federalism

11.2 Finance Commission

11.3 The 14th and 15th Finance Commissions

11.4 Features of 73rd and 74th constitutional Amendments

11.5 74th Amendment ACT 1992 in India

11.6 Decentralised Planning in Context of 73rd and 74th Constitutional Amendment Act

11.7 Foreign Responsibility and Budget Management Act

11.8 Concepts and Definition

11.9 Action taken by the Government on recommendations of the Committee

Summary

Keywords

Self Assessment

Answers for Self Assessment

Review Questions

Further Readings

Objectives

After studying this unit, you will be able to,

- know the principles governing fiscal federalism
- critically examine the various recommendations of 14th & 15th Finance Commission; and
- discuss the provisions of Fiscal Responsibility and Budget Management Act.

Introduction

The framers of the Indian constitution wanted to build a strong united India. India has adopted federalism to actualise and uphold the values of national unity, cultural diversity, democracy, regional autonomy and rapid socioeconomic transformation through collective efforts. Any viable and durable federal polity must have its counterpart in a system of efficient and equitable federal fiscal arrangement. The diverse political, economic and juridical aspects of federal fiscal relations have been discussed at length in the Commission on Centre-State Relations chaired by Justice R.S. Sarkaria which reported in 1988. The Sarkaria Report observed that from the functional standpoint, such a Constitution is not a static format, but a dynamic process. The very dynamism of the system with all its checks and balances brings in its wake problems and conflicts in the working of Union-State relations. The country is passing through major economic and political changes and, as a reaction to over-centralisation in the past decades, the States have been asking for greater freedom in the exercise of economic powers. Besides, the current policy of decentralising economic decision-making through liberalisation can aggravate regional disparities and here the Centre has an important role to play. At the same time, the less developed States will have to make corrections in their policies to attract investment, otherwise there are going to be more disparities. In the light of this background, it is desirable first to know the constitutional provisions and the role of Finance Commission and Planning Commission in this regard. Let us begin with discussing the principles of Federal Finance.

11.1 Federalism

Modern federalism developed with the emergence of the US in 1776 when thirteen British colonies in America, asserting to be States, declared Independence from Britain and constituted into United States. They created a 'Confederation and Perpetual Union' between them and wrote the Articles of Confederation in 1777 which became effective from 1781. While it ensured sovereignty to the constituting States, the Union lacked taxing powers and adequate contribution did not come from the States. After much debate, a new Constitution with adequate powers for Union government (and office of the President as CEO) was adopted in 1789. Following its example, other countries like Canada and Australia too adopted this form of government which later came to be known as federal.

In recent times, however, there are some political unions which have evolved as variants of federalism. On one side, there are unions like European Union (which are Confederations of sovereign member-states), while on the other, there are unitary states like the UK devolving quite a few powers to its constituent units with their own legislatures. France and Italy too have both devolved powers (or autonomy) to their regions. It is often suggested that a multi-ethnic country can be better governed as a federal state. However, the form itself is no guarantee as there can be several other factors which can play their roles. The USSR (1991), Yugoslavia (1992) and Czechoslovakia (1993) have all fragmented in the last few decades. The USA's is a case of unification as it started as a Union of 13 States and today there are 50 States with none divided or breaking away. Bangladesh broke away from Pakistan as they were culturally too different (besides feeling exploitation of the East by the West) while the East and the West Germany unified.

Principles of federal finance:

Economic analysis with several layers of government has a long and distinguished tradition in public finance. One of the most significant issues addressed in the literature is that of proper devolution of tax/expenditure authority between different levels of government. Federal fiscal arrangements are a necessary requirement of decentralised government administration, particularly in a large country. At least five, generally interrelated parameters define these arrangements:

i) Expenditure responsibilities

ii) Tax assignments

iii) Fiscal imbalances, if any

iv) Availability of financing alternatives

v) Institutional parameters.

Economic Principles for Designing a Good Federal Fiscal Structure:

The major parameters of an intergovernmental fiscal structure can affect the efficiency of allocation of resources in an economy as well as other determinants of its performance. Nowhere are federal fiscal structures designed from scratch (or denovo), and economic considerations are not the only factors in their design. Nevertheless, certain economic principles have been developed that can help guide the reform of inter-governmental fiscal structure in any federal country, provided its policy makers are concerned about the efficiency of resource allocation and the performance of the economy. Some of these economic principles are:

Expenditure Assignments

Expenditure assignments to different levels of government should be guided by at least three economic principles. First, public services that benefit everyone (for example, defence) and whose supply benefits from economies of scale (for example, railways) should be provided by the central government. Second, public services whose benefits are localised (for example, law and order) and for which different people can have different preferences (for example, local roads) should be provided by local governments. Third, public services whose benefits spill over to jurisdictions other than those where they are actually provided (for example, public education and public health) either should be provided centrally or should be subsidised by the central government, depending on the estimated value of the spill-over benefit.

Tax Assignments

Tax assignments to different levels of government could be guided by at least three basic principles. First, taxes that are levied on: (a) relatively mobile factors of production (for example, labour and

capital), (b) at progressive rates (for example, personal incomes), (c) cyclically sensitive tax bases (for example, personal incomes and corporate profits), and (d) tax bases that are unevenly distributed among jurisdictions (for example, natural resources) should all be assigned to the central government. Second, taxes that are levied on immobile tax bases (for example, land and property), and whose burden is not exportable to other jurisdictions, should be assigned to local governments. (Neither taxes on the consumption of goods and services, nor the corporate income tax, meet this criterion). Third, large revenue yielding taxes that are inherently buoyant (for example, personal income tax, enterprise profits tax, broad-based consumption tax) can be assigned to the central government.

Expenditure Assignments should Match Tax Assignments In order to avoid large fiscal imbalances, expenditure assignments should match the tax assignments at the corresponding levels. If they are unmatched, and lower level governments are likely to face chronic fiscal deficits, 'piggybacking' of the more elastic taxes of central governments (for example, of income taxes and/or value-added tax), or of overlapping assigned taxes, should be allowed. If, despite this strategy, fiscal imbalances continue for lower levels of government, alternative financing methods may have to be considered.

Revenue Sharing

Revenue sharing should relate to any central government tax that (a) is progressive and/or has a large built-in elasticity (for example, personal income tax or enterprise income tax), and (b) is less distortionary and is a large revenue source (for example, value-added tax or excise duties). No economic principles exist that can help decide the exact proportions of the revenues of these taxes to be transferred to the revenue sharing pool. Whatever the size of that pool, its distribution among different lower level governments, can be guided by either the 'needs' principle or the 'derivation' principle. Tax effort made by the lower level government could be added as yet another factor in designing the revenue distribution formula. 'Fiscal capacity' and 'fiscal needs' of each jurisdiction must be estimated with a clear, quantifiable, and transparent formula, as far as possible.

The foregoing principles are primarily derived from economic considerations. However, federal fiscal relations in no country of the world are based upon economic considerations alone. It is, therefore, quite reasonable to expect that historical, political, social and other noneconomic considerations will continue to play an important role in the design of the federal fiscal structure of the country. Federal fiscal relations in every country of the world will continue to remain prisoners of history, traditions, institutions and politics. What can be expected, at best, is only an incremental change from the present reality rather than a very profound and fundamental change. Whatever the extent and form of change, one hopes that it will make the structure transparent, stable and predictable.

Federalism in India

Constitution of India delineates tax bases between the Union and States listing them in the Union List and the State List respectively (as provided in the Seventh Schedule under Art 246). There was/is no taxation provision in the Concurrent List. However, when GST had to be introduced, it needed to be provided for concurrent base for which Article 246A was inserted (as 101st Amendment in August 2016). This enabled the Union to make law for CGST (central GST) and IGST (integrated GST) and the States could legislate for SGST. There is an elaborate scheme, in the Constitution, of levying, collecting and appropriating taxes and duties between the Union and State governments. All taxes where States are authorised to make law, are levied, collected and appropriated by States. There are certain duties which are levied by the Union but collected and appropriated by States in their respective jurisdictions. There were taxes (e.g. inter-state sale and consignment of goods) which were to be levied and collected by Union but were to be assigned to the States where they were collected. After introduction of GST, this has become part of IGST and State's share is to be assigned. Barring a few taxes and duties, surcharges and cesses, all taxes and duties which are to be levied and collected by the Union, are to be shared between the Union and the States in the manner recommended by the Finance Commission.

There are also similar enabling provisions for States with respect to their local governments. To begin with, Union was supposed to mandatorily share some taxes. But since 2000, most taxes and duties have to be shared by the Union with the States. However, the divisible pool does not include proceeds of cesses and surcharges collected along with taxes. The share of this exempted part in the Union's gross tax revenue is estimated to have increased from 7.5 percent (in 2000-01) to over 13.0 percent in 2013-14. The argument by the Union is that 'cesses and surcharges' are levied for specific purposes and the Constitution does not make them part of divisible pool. The Union presently

collects taxes on Income (Personal and Corporations), Excise (on Petroleum & Petroleum Products and Tobacco Products), Customs, and CGST and shares them with the States. States collect several taxes and duties including SGST, VAT (on alcoholic drinks and petroleum & petroleum products), Motor Vehicle Tax, Stamp Duty, etc. Taxes on agricultural income are minimum and yield from land revenue is not substantial. Besides sharing of taxation proceeds, the Union is supposed to give grants-in-aid to the States under Articles 275 and 282. There is also provision for 'grant-in-lieu of tax' for States of Assam, Bihar, Odisha and West Bengal exporting jute and jute products.

In addition to taxes, there are non-tax revenue resources which are chiefly dividends from public enterprises, fees or royalty on use of natural resources like spectrum, mineral fields, etc. All departments collect some fees and fines. Governments also receive interest (as they pay out) on loan extended to other governments, state enterprises and employees. It was envisaged that there would be vertical as well as horizontal imbalances in fiscal resources. To address this issue, Article 280 provides for a Finance Commission (FC) [to be constituted by the President after every five years] to adjudicate the sharing of resources between the Union and the States. Further, after the introduction of Parts IX and IXA dealing with Panchayats and Municipalities respectively, Finance Commission is also tasked to suggest measures to augment States' resources so as to help them supplement the resources of their local governments. In particular, the FC is asked to make recommendations on: (i) distribution of net proceeds of taxes between the Union and the States and allocation of States' share among States, (ii) principles that should govern the grants-in-aid to the States out of the Consolidated Fund of India, and after 1994, (iii) the measures needed to augment the Consolidated Fund of a State so as to supplement the resources of the Panchayats/Municipalities in the State on the basis of the recommendations made by the Finance Commission of the State. The President can choose to refer any other matter to the Commission in the interest of sound financial position for states. Exhaustive Terms of Reference (ToR) are handed over along with the appointment of the Commission (Chairman and Members) every once in five years with disaster management appearing as a recurring feature in the ToR. Finance Commission considers different submissions received, consults State governments, meets academics, makes calculations of revenues and expenditures on normative bases, evolves criteria for inter-se distribution of States' share of taxes among states (usually in percentage terms) and recommends grants-in-aid to those States which are in need of aid, local government grants, disaster management grants, and at times, sector specific grants. But the recommendation made by the FC have to be acted upon by the Government and by and large it has been accepting Finance Commission's recommendations.

In 1993 through an Amendment (under Articles 243H and 243X), Constitution has mandated the States to: (i) authorize their respective Panchayats and Municipalities to levy, collect and appropriate such taxes, duties, tolls and fees as they deem fit, (ii) assign such taxes, duties, tolls and cess as they deem fit, and (c) provide for making grants-in-aid from Consolidated Fund of the State. Further, under Articles 243I and 243Y, in every State, a Finance Commission is to be constituted after every five years to recommend, among others, taxes that may be assigned to and shared with, besides grants-in-aid to be given to, Panchayats and Municipalities.

11.2 Finance Commission

Article 280 requires that the President of India should appoint a Finance Commission within two years from the commencement of the Constitution and thereafter once in every five years or even earlier, if necessary. It also specifies broadly the Terms of Reference (ToR) of the Finance Commission and its composition.

Composition

Article 280 has fixed the total strength of Finance Commission by specifying that it should consist of a Chairperson and four other members. The Finance Act 1951, Section (3) specifies the qualifications for the Chairperson and members. According to the Act, 'the Chairperson of the Commission shall be selected from among persons, who have or had experience in public affairs. The other members shall be selected from among persons who:

1) are or have been or qualified to be appointed, as a Judge of a High Court; or

2) have expertise in financial and accounts matters; or

3) are profound administrators; or

4) have expertise in economics

Functions

It shall be the duty of the Finance Commission to make recommendations to the President pertaining to the following matters:

1) The distribution between the Union and the States of the net proceeds of taxes revenues and the allocation between the States of the respective shares of such proceeds. By doing so it redresses the vertical imbalances between the taxation powers and expenditure responsibilities of the centre and states respectively and equalization of all public servies across the states.

2) The principles that should govern the grants-in-aid of the revenues of the States out of the Consolidated Fund of India and the sums to be paid to the States by way of grants-in-aid of their revenues.

3) The measures needed to augment the Consolidated Fund of a State to supplement the resources of the Panchayats and Municipalities in the State on the basis of the recommendations made by the Finance Commission of the State.

4) The continuance or modification of the terms of any agreement entered into by the Government of India with the Government of any State specified in Part 'B' of the First Schedule under clause (i) of Article 278 or under Article 306.

5) The Commission shall use the latest Census for drawing the population data while making its recommendations.

6) Any other matter referred to it by the President.

11.3 The 14th and 15th Finance Commissions

The primary responsibility of the Finance Commission, as mentioned above in the preceding section, relates to recommending fiscal transfers from the Union to sub-national governments. As the transfers to local bodies are also routed through the State governments, it could be taken as Centre-State transfers. The two types of transfers, tax devolution and grants, are different in nature in that grants are recommended in money terms or fixed amounts (for each State), while tax devolution is recommended as the percentage shares of each State in the total tax revenue of the Union net of :

a) Cost of collection of taxes

b) Revenues collected in the Union Territories

c) Exclusions like cess and surcharges as specified in the Constitution.

Usually, Finance Commissions estimate individual States' revenue receipts and current expenditure first, yielding estimates of revenue deficit/surplus9 . Next, tax devolution is recommended in terms of (i) the share of States as a whole in the distributable tax revenue of the Union and (ii) applicable shares of each State. The Commission itself estimates distributable Union tax revenues for the award period, and applying the shares recommended, it estimates the amount of tax devolution for each State. Selecting the States with pre-devolution revenue deficits, these deficits are reduced by the estimated tax devolution. For only those States which end up with post-devolution revenue deficits, a revenue deficit grant to cover the same is recommended. Other grants are usually recommended independent of this process, based on considerations specific to the nature of the grant recommended. By far, tax devolution outweighs other transfers (grants) in terms of the amounts concerned.

The ToR of the 14th Finance Commission, the last one to have submitted its report at this point, is reproduced in Appendix 12.1. As can be seen, it was asked to consider a large number of issues other than the basic ones enshrined in the Constitution. It, however, did not make specific recommendations affecting the Centre-State financial flows on all of them. The highlights of its recommendations were as follows.

Its first major recommendation was to raise the share of States as a whole in the net tax revenues substantially. This can be seen with reference to the earlier Finance Commissions' recommendations provided in Table 11.1

Table 11.1: States' Share in Divisible Pool of Central taxes

Finance Commission	States Share in the Net Proceeds of		
	Income Tax (%)	Union Excise Duties (%)	All Shareable Union Taxes (%)
FC-1 (1952-57)	55	40	
FC-2 (1957-62)	60	25	
FC-3 (1962-66)	66.66	20	
FC-4 (1966-69)	75	20	
FC-5 (1969-74)	75	20	
FC-6 (1974-79)	80	20	
FC-7 (1979-84)	85	40	
FC-8 (1984-89)	85	45	
FC-9-I (1989-90)	85	40	
FC-9-II (1990-95)	85	45	
FC-10 (1995-00)	77.5	47.5	
FC-11 (2000-05)			29.5
FC-12 (2005-10)			30.5
FC-13 (2010-15)			32
FC-14 (2015-20)			**42**

Before the 11th Finance Commission, Finance Commissions could recommend devolution with respect to two taxes only: income tax (after 1961, personal income tax only) was shareable as per the Constitution while Union excise duty was shareable if the Parliament so desired (it passed a resolution to share the tax). The 10th Finance Commission recommended a change in the system to sharing of all taxes, which was then made feasible with the necessary constitutional amendment; this was implemented with the awards of the 11th Finance Commission onwards. It may be noticed that there is a significant jump in the States' share recommended by the 14th Finance Commission. While this was extensively analysed by commentators, it actually signified a much smaller increase, the rest of it being a compensatory one for the discontinuation of Plan grants and the 14th Finance Commission consciously avoiding certain types of grants awarded by several previous Finance Commissions. This latter observation actually constitutes the second highlight of the14th Finance Commission awards.

All the recent Finance Commissions had recommended conditional or specific purpose grants, apart from the constitutionally ordained revenue deficit grants, those for local bodies, and for disaster relief/preparedness. In contrast, the 14th Finance Commission took the position that other agencies with adequate domain expertise should be tasked with the responsibility of recommending specific purpose, or scheme specific grants. In the process, the transfers recommended by it were overwhelmingly unconditional, enhancing the autonomy of the States to decide the uses of the funds received.

The third highlight related to the use of population data. Several Finance Commissions preceding the 14th had used population data for the year 1971 for scaling purposes as also when population was directly used as a determinant of the transfers, as required by their ToR. This in turn was the result of a resolution of the Parliament. The basic idea was to provide an implicit incentive to States with lower growth of population as compared to the others, or rewarding successful control of population growth. However, its ToR marked a departure from the past several Finance Commissions; while the 14th Finance Commission was asked to continue with the 1971 population as the basic number, the ToR specified that it may consider 'demographic changes' post-1971 also. Accordingly, the 14th Commission used a variable termed 'demographic changes' (post-1971) in

their suggested formula to determine tax devolution. Table 12.3 provides the determinants used by a few recent Finance Commissions to provide a context and comparison.

Table 11.2: Components and Weights used in Tax Devolution Formulae

Component	FC 11	FC 12	FC 13	FC 14
Income Distance/Fiscal Capacity	62.5%	50.0%	47.5%	50.0%
Population-1971	10.0%	25.0%	25.0%	17.5%
Area	7.5%	10.0%	10.0%	15.0%
Index of infrastructure	7.5%	-	-	-
Tax Effort	5.0%	7.5%	*	-
Fiscal Discipline	7.5%	7.5%	17.5%	-
Demographic Change (2011 population)	-	-	-	10.0%
Forest Cover	-	-	-	7.5%
* Included in fiscal discipline				

It can be seen that the formula for determination of the shares of individual States in tax devolution recommended by the 14th Finance Commission was different in two other respects. One, it did not include a traditional fiscal discipline/ tax effort variable – justified as providing the appropriate fiscal incentive – in its list of determinants on the ground that the already operational Fiscal Responsibility and Budget Management (FRBM) Acts of different States, and the incentives provided to the States to stay within the parameters defined by the Acts obviated the need for any further incentive. Two, it introduced a new determinant for the first time – the share of a State in total forest cover – in response to one clause of the ToR that stressed "the need to balance management of ecology, environment and climate change consistent with sustainable economic development".

The fourth and final highlight related to a small variation permitted in the normative fiscal deficit level recommended for compliance with FRBM Act.

The two primary targets of FRBM legislations as recommended by preceding Finance Commissions were zero revenue deficit or a revenue surplus, and a maximum fiscal deficit of 3 per cent of Gross State Domestic Product (GSDP). The 14th Finance Commission allowed a maximum of 0.5 per cent of GSDP as additional fiscal deficit provided the concerned State had:

a) Revenue deficit = 0;

b) Debt-GSDP ratio = 25%;

c) Interest payments = 10% of revenue receipts

To avail of any additional fiscal deficit limit, a State had to fulfil the condition (a). Fulfilling conditions (b) and (c) entitled a State to 0.25 per cent additional fiscal deficit limit for each, available separately and simultaneously (if both the conditions were fulfilled). Thus, instead of a uniform prescription of 3 per cent fiscal deficit, States had three possible levels of fiscal deficit– 3 per cent, 3.25 per cent and 3.5 per cent, depending on their fulfilling conditions (a), (b), and (c). This partially met the critique of the uniform 3 per cent ceiling as a 'one size fits all' approach unsuitable for a large and diverse nation like India, where individual States had different investment needs and their financing requirements through borrowing.

The Fifteenth Finance Commission was constituted by the Government of India after getting approval from President of India through a notification in The Gazette of India on November 27, 2017. Nand Kishore Singh was appointed, as the Commission's Chairperson, along with full-time and part-time members. The Commission was set up to give recommendations for devolution of taxes and other fiscal matters for five fiscal years, commencing 1 April 2020. The main tasks of the Commission were to strengthen cooperative federalism, improve the quality of public spending, and help fiscal stability. The Chairperson felt that there is a need to reappraise the formula of devolution of revenues from Union to states. Commission stives to balance equity and efficiency that urban and rural local bodies required for economic growth.

The 15th Finance Commission was appointed in November 2017, and initially asked to submit its report by October 2019, as its award period was to begin from the fiscal year 2020-21. As has become customary, its ToR contains several issues over and above the basic constitutionally mandated tasks. Of course, it is not necessary for the Commission to make recommendations on every item of the ToR– it was determined long ago by the Sixth Finance Commission that Finance Commissions were not bound by the ToR. However, they must give due consideration to each item of the ToR, and build in whatever considerations they feel appropriate into their recommendations. Also, an important change in the ToR that generated some controversy was a shift to the 2011 population (as opposed to the 1971 population) as the basic population data for each State. States with relatively greater success in controlling their population felt it to be a disincentive for containing population growth.

First because of the additional ToR to consider and suggest a dedicated financing mechanism for defence and internal security, and then because of the change in the status of the State of Jammu and Kashmir into two Union Territories, the Commission needed and was given a one-year extension. It provided a small first report in 2019, applicable to the fiscal year 2020-21 only. The first report marginally modified the share of the States in the net tax revenue of the Union to 41 per cent (Jammu & Kashmir was not covered any more), and also made some small changes in the tax devolution formula (the main one being the reintroduction of tax effort as a determinant with a small weight, and use of a variable representing Total fertility rate of a State as per 2011 Census data along with population as per 2011 Census). Its full report is expected in October 2020, but the outbreak of the COVID-19 pandemic, and its impact on the finances of the States and the Union, would require reconsideration of its entire approach and resultant computations. Moreover, the Commission has been asked to provide its recommendations for five more years till 2025-26, making it the only Finance Commission so far with its award period covering a total of six years instead of the customary five.

11.4 Features of 73rd and 74th constitutional Amendments

The revitalization of Panchayati Raj manifested through the 73rd Constitutional Amendment owes its origin to the dynamic leadership of Rajiv Gandhi. In his address to the 5th Workshop on 'Responsive Administration' held at Coimbatore in June, 1988, he said that "If our district administration is not sufficiently responsive, the basic reason is that it is not only sufficiently representative. With the decay of Panchayati Raj Institutions, the administration has got isolated from the people thus dulling its sensitivity to the needs of the people". With events moving at a faster pace, Panchayati Raj emerged as a major institutional channel of such administration.

The Constitution 73rd Amendment Act, 1992 came into effect from 24th April 1993. No one disputes that it is a historic legislation. The basic question arises as to what was the basic sprit behind this legislation? Was it limited to the passing of conformity acts and endowing panchayats with some administrative and financial powers or to make them genuine institutions for participatory self-government? The emphasis has been so far on the former, which has made panchayats mere implementing agencies of central and state schemes, passed on to them, with funds. The basic objective of the democratic decentralization through reactivation of the Panchayati Raj system was to realize Gandhiji's concept of "Swarajya" (Ibid.). In this Unit we will be discussing the various features of the 73rd and the 74th amendments.

Salient Features

The Salient features of the Seventy-Third Constitution Amendment Act are given below:

The Amendment stipulates for certain compulsory provisions which are obligatory on the part of the State Governments to incorporate in their respective Acts. Some aspects have, however, been left at the discretion of State legislatures to make suitable provisions in their Act.

The mandatory provisions are:

(A) Establishment of 'Gram Sabha' at the village level comprising of persons registered in the electoral rolls relating to a village comprised within the area of Panchayat (Article 243(b)). The State, where Gram Sabha does not exist, will have to make such provision.

(B) Establishment of a three-tier system of Panchayat, at the village, intermediate and district levels, in all the States and Union Territories (UTs) except in those having a population of less than twenty lakhs where Panchayats at intermediate level need not be constituted. The States which will fall under this category as per 1991 census are Goa, Sikkim, all the North Eastern States and UTs.

(C) All levels of Panchayats will consist of persons elected directly from the territorial constituencies in the Panchayat area. The territorial constituencies shall be carved out in such manner that the ratio between the population of each constituency and the number of seats allotted to it should be uniform throughout the Panchayat area as far as practicable.

(D) All members of the Panchayat whether or not directly elected shall have the right to vote in the meetings of the Panchayats.

(E) The chairperson of a Panchayat at the intermediate and district level shall be elected from among the directly elected members representing the territorial constituencies.

(F) Reservation of seats for SCs/STs in proportion to their population in the Panchayat area and seats may be allotted by rotation.

(G) One-third of the total number of seats, both in reserved and unreserved categories shall be apart for women in every Panchayat and seats may be allotted by rotation.

(H) The chairperson of each level of Panchayats shall be reserved for SCs/STs in proportion to their population on rotation basis. Similarly, one-third post of chairpersons of each level of Panchayats shall be reserved for women on rotation basis.

(I) A fixed tenure of five years for Panchayats from the data appointed for its first meeting and the tenure cannot be extended. However, if a Panchayat is dissolved before the expiry of its term, election is to conducted within a period of six months of the dissolution to reconstitute the Panchayat for the remainder of the terms of the term provided the remainder of the period is not less than six months. The Panchayats shall be constituted before the expiry of its tenure of five years.

(J) Amendment of law to dissolve the Panchayats at any level is also prohibited.

(K) A person who has attained twenty one years of age is eligible for a membership of a Panchayat.
(L) Constitution of a Finance Commission in the State within one year from the commencement of the Constitution Amendment Act initially and thereafter every five years to review the finances of the Panchayats and recommended the principles on the basis of which the taxes to be appropriated by, or assigned to the Panchayats as also grant-in-aid to the Panchayats from the consolidated fund of the State. The action taken on the recommendation of the Commission shall be laid before the Legislature of the State.

(M) Audit of the accounts of the Panchayats to be done.

(N) A State Election Commission has to be constituted for the superintendence, direction and control of the Panchayats at all levels. The State Election Commissioner, however, shall be removed in the manner and on the like grounds as a Judge of a High Court.

(O) The Act is applicable to all States and Union Territories. Exemption is being ranted to certain states and tribal areas and other territories from the application of the provisions of part IX of the Constitution and powers to the President and the Governor to modify the provisions of the IX in their application to Union Territories and Scheduled areas, respectively.

(P) The existing laws relating to Panchayats which are inconsistent with the provision of the Act shall continue to be inforced until it is amended or repealed within one year. The existing Panchayats shall continue till the expiration of their terms unless they are dissolved by the competent authority.

(Q) Courts are not to interface in the electoral matters such as delimitation of constituencies, allotment of seats and election to any Panchayat. Petition challenging the election of any Panchayat can be presented to Besides these mandatory provisions the State Legislature has been empowered to have legislation in respect of a wide range of subjects, including on such matters as functions of the Panchayats and so on.

11.5 74th Amendment ACT 1992 in India

The constitution 74th Amendment Act 1992, relating to Municipalities (Urban local Government) was passed by the parliament in 1992. It received the assent of the president of India on 20th April 1993. The Act seeks to provide a common framework for the structure and mandate of urban local bodies to enable them to function as effective democratic units of local Self Government. Government of India notified 1st June 1993 as the date from which the 74th Amendment Act came into force. The Act provided for a period of one year from the date of its commencement, within

which the then existing municipal laws (which were in force at that time In states/union territories) were required to be changed/amended/modified in order to bring them in conformity with the provisions of the constitution (74th Amendment) Act—1992.

The Salient Features of the Constitution (74th Amendment) Act, 1992:

(a) Constitution of Municipalities.

(b) Composition of Municipalities.

(c) Constitution of wards committees.

(d) Reservation of seats.

(e) Fixed duration of Municipalities.

(f) Power, Authority and responsibilities of Municipalities.

(g) Appointment of State Election Commission.

(h) Appointment of State Finance Commission.

(i) Constitution of Metropolitan and District Planning Committees.

Action has been taken by the State/Union Territory Governments to set up State Finance Commission/State Election Commissions. All states set up their Finance Commissions. Most of the State Finance Commissions submitted their report to the concerned State Government.

The concerned states accepted nearly all the recommendations made by their respective finance commissions. All State Governments/Union Territories set up their Election Commissions for conducting elections to urban Local Bodies.

11.6 Decentralised Planning in Context of 73rd and 74th Constitutional Amendment Act

Efforts to establish suitable planning machinery at the local levels have been half-hearted. The effective decentralisation in planning in India existed at the state level vis-à-vis planning at the state level seems to depend very much on the size of the state (Rao, 1989). The Planning machinery at the district level was weak both in terms of technical expertise and financial resources. There was virtually no such co-coordinating agency, which could take the responsibility to link various existing programmes and schemes so that they can be implemented effectively. Decentralised planning at the District level was effective precisely in those states where performance in respect of land reform was better like West Bengal, Karnataka, and Jammu and Kashmir belongs to this category (ibid).

All the Committees prior to 73rd and 74th Constitutional Amendment advocated decentralized planning. All these efforts culminated into the presentations of two bills viz., 64th and 65th Constitutional Amendment Bills in the Parliament in the election year of 1989 for providing Constitutional status to the local government institutions in the rural and urban areas respectively. The two bills though crucial steps towards decentralised planning were passed by the Lok Sabha but fell in the Rajya Sabha due to want of majority. Thus it is obvious that none of these attempts towards decentralized planning in the post-independence era (before the passage of 73rd and 74th Constitutional Amendment Acts could satisfy the set of requisites the research team developed. Therefore, these efforts could not give desired results and the idea of decentralized planning remained a distant dream.

It was felt necessary to build up and strengthen the planning capabilities at the district and block levels. Accordingly, the 73rd and 74th Amendment Acts were enacted. With the PRIs and Municipalities setting constitutional status by way of the 73rdand 74th Amendment Acts respectively decentralised planning has got a new responsibility of formulation and implementation of the programmes of economic development and social justice. It may be said that now onwards there would be three-tier in the planning process, viz., the centre, the states and the Panchayats (Kumar, 1997).

11.7 Foreign Responsibility and Budget Management Act

The term 'fiscal' refers to government revenues especially those raised by levying taxes. The term 'reforms' refers to strong rectification measures needed for restoring the balance in any situation which ordinarily does not respond to 'normal measures'. 'Fiscal reforms', thus, refers to the changes in the fiscal sphere brought about by the fiscal policies of the government. The fiscal policy is concerned with the revenue and expenditure policies of the government. The objective of fiscal policy is to use the same as the principal instrument to promote the aggregate demand for goods and services in the economy. The important fiscal instruments are taxes, government expenditure, public debt and subsidies.

Also, in the context of a developing country with significant proportions of the population belonging to the poor and weaker sections, it becomes necessary for the government to subsidise many essential goods and services. In discharging these responsibilities, the government will be effectively aided if the revenues generated by the government are able to establish a healthy balance with its expenditure obligations involved in providing different services. However, when this balance is disturbed, due to what is called as 'fiscal profligacy', the anomalies that sets-in leads to a situation of 'fiscal imbalance'. The present unit deals with the situation faced by the Indian government, in the early 1990s, which warranted the implementation of 'fiscal reforms' in order to restore its fiscal health.

11.8 Concepts and Definition

In the context of fiscal reforms for establishing macroeconomic stabilisation, controlling key deficit variables assumes importance. We will familiarise ourselves with the various deficit indicators and understand their implications.

FISCAL DEFICIT: It is the difference between the total government expenditure and total revenues and non-debt capital receipts. It is a measure of the total resource gap – i.e. the excess of total government expenditure over its revenue receipts and grants. This is thus a measure of the government's indebtedness. This measure of deficit has been adopted by the IMF as the Principal Policy Target, in evaluating the performance of countries seeking assistance.

REVENUE DEFICIT: It is the difference between revenue expenditure and current revenues. Thus, a Revenue Deficit arises, if revenue expenditure exceeds current revenues. It is measured to ascertain whether the recurrent expenditure of the government on account of public consumption and current transfers are fully met out of current revenues.

BUDGET DEFICIT: It is the difference between all receipts and all expenditure (both revenue and capital).

PRIMARY DEFICIT: This is equal to fiscal deficit minus interest payments.

MONETISED DEFICIT: Important from the policy point of view, monetised deficit tells us the increase in Net RBI Credit to the Central Government. The overall budgetary deficit derived in the budget does not accurately reflect the size of the monetised deficit. The monetised deficit indicates the quantum of additional money created as a consequence of credit extended to governments.

Foreign Responsibility and Budget Management Act:

The objective of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003 was to provide for the responsibility of the Central Government to ensure inter-generational equity in fiscal management and long-term macro-economic stability. The Central Government should achieve the objectives through sufficient revenue surplus and prudential debt management through limits on borrowings, debt and deficits. It also stipulated requirement of greater transparency in fiscal operations of the Central Government and conducting the fiscal policy in a medium-term framework. The FRBM Rules 2004 framed under Section 8 of the Act came into force in July 2004.

The FRBM Act, 2003 (as amended from time to time) and Rules made thereunder specified targets with regard to eliminating/containing three fiscal indicators namely, revenue deficit, effective revenue deficit and fiscal deficit in terms of percentage of Gross Domestic Product (GDP) to be achieved by 31 March 2018 with annual reduction targets for the respective indicators. The Act and the Rules also included requirements of capping of guarantees, additional liabilities with the stipulation of not resorting to borrow from Reserve Bank of India except in special situations.

Besides, the Act and the Rules require the Government to lay in both the houses of Parliament three policy statements, viz. Medium Term Fiscal Policy (MTFP) Statement, Fiscal Policy Strategy (FPS) Statement and Macro-economic Framework (MF) Statement along with the Annual Financial Statement and the Demands for Grants. Further, it also required laying of Medium-term Expenditure Framework (MTEF) Statement in Parliament immediately following the session of Parliament in which the previously mentioned three policy statements were laid.

The FRBM Act and Rules also require laying of quarterly review reports, besides six disclosures in the prescribed forms. A brief on different fiscal policy statements and disclosure forms to be laid before the Parliament under the provisions of FRBM.

Foreign Responsibility and Budget Management Act

The Government in 2016 felt a need to review the FRBM Act attributing it to substantial changes in global backdrop including slowdown, developments in China and Eurozone, protectionism and low inflation and unconventional monetary policy, etc. It was felt that due to increased financial integration with the world economy, domestic policy changes to cope with challenging, uncertain and volatile exogenous environment were needed.

It was also argued that changes and flexibility in fiscal rules in several countries allow fiscal space to absorb exogenous shocks. Presence of independent fiscal council, escape clauses and automatic correction to impart transparency, flexibility and credibility to the framework in the fiscal rules also necessitated alignment of rules in India in the same parlance.

With these objectives in mind, Government constituted the FRBM review committee in May 2016 under the chairmanship of Shri N.K. Singh to comprehensively review the working of FRBM Act over last 12 years and to suggest way forward. Terms of reference of Committee include particularly in exploring the feasibility of having fiscal deficit range as the target instead of fixed numbers in order to give necessary policy space to the Government to manage dynamic situations and aligning the fiscal expansion or contraction with credit contraction or expansion respectively in the economy.

The Committee submitted its report on 23 January 2017. The major recommendations of the Committee are as follows:

• Repeal the existing FRBM Act, 2003 and the FRBM Rules, 2004 and enact a new Debt and Fiscal Responsibility Act, enact and adopt the Debt and Fiscal Responsibility Rules in pursuance of the new Act, as per drafts suggested by the Committee.

• Adopt a prudent medium-term ceiling for General Government debt of 60 per cent of GDP to be achieved by no later than financial year 2022-23. Within the overall ceiling of 60 per cent, adopt a ceiling of 40 per cent for the Centre and the balance 20 per cent for the States.

• Adopt fiscal deficit as the key operational target consistent with achieving the medium term debt ceiling. • The path of fiscal deficit to GDP ratio of 3.0 per cent in 2017-18 to 2019-20, 2.8 per cent in financial year 2020-21, 2.6 per cent in 2021-22 and 2.5 per cent in 2022-23, be adopted.

• Revenue deficit to GDP ratio to decline steadily by 0.25 percentage points each year with the path specified as follows: 2.3 per cent in 2016-17, 2.05 per cent in 2017-18, 1.8 per cent in 2018-19, 1.55 per cent in 2019-20, 1.30 per cent in 2020-21, 1.05 per cent in 2021-22 and 0.8 per cent in 2022-23.

• The deviation from the stipulated Fiscal Deficit target shall not exceed 0.5 percentage points in a year in case of invocation of Escape Clauses in conditions such as national security, act of war, national calamity, collapse of agriculture, structural reforms in the economy, decline in real output growth, etc.

• Constitute a Fiscal Council with the terms and conditions as mentioned in the Report of the Committee.

11.9 Action taken by the Government on recommendations of the Committee

The Government has made comprehensive amendments in the FRBM architecture through Finance Act 2018 presented along with Budget 2018-19 in view of the recommendations made by the FRBM Review Committee. In compliance to amendment in FRBM Act through Finance Act 2018, Central Government notified FRBM (Amendment) Rule 2018 on 2 April 2018.

In the revised FRBM architecture, the Government will simultaneously target debt and fiscal deficit and treat fiscal deficit as an operational target. The revised FRBM framework has done away with the requirements of achievement of targets on revenue account (Revenue Deficit) and consequently Effective Revenue Deficit.

Further, Medium-term Fiscal Policy cum Fiscal Policy Strategy Statement is now required to be prepared in place of earlier Medium-term Fiscal Policy Statement. This includes new indicators such as Primary deficit 3 , non-tax revenue and Central Government debt.

The major amendments made through the Finance Act 2018 in the FRBM framework are;

- Fiscal deficit as the key operational target with focus on achieving three per cent of GDP by the end of the FY 2020-21.
- Doing away with the Revenue Deficit target and consequently Effective Revenue Deficit target and inclusion of Primary deficit as a fiscal indicator.
- Achieving the General Government debt4 target of 60 per cent and Central Government debt target of 40 per cent by the end of the FY 2024-25. The scope of 'Central Government Debt' has been expanded to include the total outstanding liabilities on the security of the Consolidated Fund of India and Public Account plus such financial liabilities of anybody corporate or other entity owned or controlled by the Central Government, which the Government is to repay or service.
- Not to give additional guarantees with respect to any loan on security of the Consolidated Fund of India in excess of one-half per cent of GDP in any financial year.
- Widening of grounds (escape clauses) on which Central Government is allowed to breach the deficit targets including national security, act of war, national calamity, collapse of agriculture, structural reforms in the economy, decline in real output growth, etc. However, any deviation from Fiscal Deficit target shall not exceed one-half per cent of the GDP.
- In case of increase in real output growth of a quarter by at least three per cent points above its average of the previous four quarters, reduce the fiscal deficit by at least one-quarter per cent of the GDP in a year.
- Half-yearly review in place of quarterly review and preparation of monthly statement of accounts.

  The Government, however, has not included the recommendations of the Committee relating to indicator of Revenue Deficit and establishment of Fiscal Council in the amended FRBM Act. With regard to not including the indicator of revenue deficit, the Government argued that there is little or no evidence to say that capital expenditure should enjoy pre-eminence over revenue expenditure in a country like India. Moreover, expenditure of revenue nature such as health and education also enhance human capital formation. The Government did not provide any specific reason in either budget documents and/or MTFP statements for not constituting Fiscal Council as recommended by FRBM review Committee.

Summary

The need for economic reforms in June/July, 1991 was acutely felt in view of the balance of payment crisis and the growing fiscal imbalances. The fiscal crisis was a result of the fiscal profligacy of the central and state governments during 1980s. This contributed to a balance of payment crisis necessitating wide ranging economic reforms of which fiscal reforms is the important one. The need for restoring fiscal balance by reducing fiscal deficits was widely recognised and a number of tax reforms and expenditure reforms were initiated. The tax reforms, introduced in the light of the Chelliah's tax reforms committee and Kelker's committee included altering the tax structure of direct taxes by expanding the tax base, reducing the rates leading to improved tax compliance and making the tax administration more efficient. The indirect tax system is also reformed by reducing import duties and reforming the excise duties towards a VAT system. A new tax, service tax, was introduced covering about 104 services as on date. All these increased tax revenues considerably. Expenditure reforms have concentrated on the major subsidies in the areas of food, fertilizers and petroleum so as to rationalise them. The FRBM Act, which stipulated targets for the reduction of fiscal and revenue deficits, is a major feature of fiscal reforms. Progress in the enactment of similar legislations in the states, in line with that at the Centre, is in line with the targets as fiscal legislations at state level are a crucial part of the overall fiscal reforms.

Keywords

Regulation: The totality of government controls on the social and economic activities of its citizens; the rule-making process of those administrative agencies charged with the official interpretation of laws.

Fiscal Deficit: difference between the total government expenditure and total revenues and non-debt capital receipts.

Fiscal Imbalance: difference between government revenue and government expenditure.

Cooperative Federalism: Federalism wherein two or more levels of government decide to work in cooperation on some subjects rather than considering them encroachment on each other's turf.

Fiscal Profligacy: higher governmental spending, particularly unproductive spending, like subsidies including inefficient utilization of resources due to unrealized outcomes and time overruns on projects resulting in increased expenditure.

Self Assessment

1. As per the 7th schedule of the constitution of the country, how many taxes can be levied by the state.

A. Fifteen
B. Seventeen
C. Nineteen
D. Twenty-one

1. Agriculture may be taxed by…….

A. Central government
B. State government
C. Both
D. It is not taxable.

2. Fiscal federalism broadly considers the ……. structure of the public sector.

A. Vertical
B. Horizontal
C. May be both.
D. None of the above

1. What is the biggest source of revenue for the state government?

A. Toll tax
B. Tax on advertisement
C. Grants and aids from central government
D. Taxes on land and buildings

2. Jawahar Lal Nehru advocated ………… of powers for better governance.

A. Centralization
B. Decentralization
C. Depending on the situation
D. None of the above

3. The formation of the Finance Commission has been given under which article of the Indian constitution.

A. Article 21

B. Article 51

C. Article 250

D. Article 377

4. Which Finance Commission gave its report in 2021?

A. Thirteenth

B. Fourteenth

C. Fifteenth

D. Sixteenth

5. Which state received the maximum grant in aid in the period between 2015-2020?

A. West Bengal

B. Jammu and Kashmir

C. Himachal Pradesh

D. Andhra Pradesh

6. Which constitutional amendment was brought to give legal status to Panchayats?

A. 63rd

B. 64th

C. 73rd

D. 74th

7. Which constitutional amendment was brought to give legal status to Urban Local Bodies?

A. 63rd

B. 64th

C. 73rd

D. 74th

8. Are the recommendations of the State Finance Commission mandatory for the states to adhere?

A. True

B. False

9. Can the urban local body levy property tax?

A. True

B. False

10. What is the target of fiscal deficit for the financial year 2021-2022?

A. 5%

B. 6%

C. 6.8%

D. 7%

11. Why was the N K Singh committee formed?
A. To evaluate FRBM Act
B. To evaluate fiscal deficit of the governments
C. To evaluate the working of the Finance Commission
D. None of the above

12. By which year the debt of the central government is to be limited to 40% of the GDP?
A. 2008-09
B. 2022-23
C. 2023-24
D. 2024-25

Answers for Self Assessment

1.	C	2.	B	3.	A	4.	C	5.	B
6.	C	7.	C	8.	B	9.	C	10.	D
11.	B	12.	A	13.	C	14.	A	15.	D

Review Questions

1. Explain the principles of federal finance.
2. What is the basis for recommendation of the Finance Commissions on transfers?
3. How are the recommendations of 14th and 15th Finance Commission different from the previous one?
4. State in brief the principles of federal finance. How far the Centre-State financial relations in India adhere to these?
5. What are the constitutional provisions relating to Centre-State financial relations?
6. How is India a federal State?

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Unit 12: Foreign Trade

CONTENTS

Objectives

Introduction

12.1 Foreign Trade

12.2 Import substituting

12.3 Facilities for Creation of Production Base

12.4 Balance of Payment

12.5 India and WTO

12.6 Objectives of the WTO

12.7 Principles of the WTO

12.8 Functions of the WTO

12.9 WTO Agreements

Summary

Keywords

Self Assessment

Answers for Self Assessment

Review Questions

Further Readings

Objectives

- state the role of foreign trade in economic development of a country
- assess India's position of balance of payment;
- explain the main features of the multilateral framework of international trade;

Introduction

India is moving fast towards globalization. Inter-dependence between the economies of the world has increased multifold. External sector in the economy has gained prime importance. Both exports and imports contribute to the production process. Both of these are effective instrument in raising the income levels of the people in a developing economy. Apart from flow of goods, increasing flows of services and capital between the nations give rise to payments and receipts in foreign exchange which, in turn, influence the Balance of Payment's position.

Foreign trade worked as an engine of growth in UK (18th & 19th centuries), Japan, South Korea, Taiwan and other East Asian Countries (20th century), and more recently, in China, by generating impulses that had strong forward and backward linkages with many sectors of the economy. These countries also gained by opening up their economies to foreign capital and enterprise. Since the 1990s, India too has adopted similar policies. Liberalization of trade and opening up of the economy has dramatically transformed the profile of India's foreign trade and balance of payments scenario.

12.1 Foreign Trade

Foreign trade has worked as an 'engine of growth' in the past (witness Great Britain in the 19th century and Japan in the 20th, besides others), and even in more recent times the "outward-

oriented growth strategy" adopted by the Newly Industrializing Economies of Asia, viz., Hong Kong, (now a special administered area of China), Singapore, Taiwan, Malaysia, Thailand, and South Korea, has enabled them to overcome the constraints of small resource poor under-developed economies.

Contribution of Foreign Trade to Economic Development

- Foreign trade contributes to economic development in a number of ways.
- It provides flow of technology which allows for increases in total factor productivity, and some short-run multiplier effects for countries with unemployed labor.
- It generates pressure for dynamic change through: (i) competitive pressure from imports, (ii) pressure of competing for export markets, and (iii) a better allocation of resources.
- Exports allow increased exploitation of economies of scale, separation of production patterns from domestic demand, and increasing familiarity with absorption of new technologies.
- These, in turn, help increase the profitability of the domestic business without any corresponding increase in price.
- Foreign trade increases most workers' welfare. It does so at least in four ways: (i) larger exports translate into higher wages; (ii) because workers are also consumers, trade brings them immediate gains through cheaper imports; (iii) it enables most workers to become more productive as the goods they produce increase in value; and (iv) trade increases technology transfers from industrial to UDCs and the transferred technology is biased in favor of skilled labor.
- Increased openness to trade has been strongly associated with the reduction of poverty in most developing countries, as the historian Arnold Toynbee said 'civilization' has been spread through 'mimesis': simple copying.

12.2 Import substituting

Import substituting industrialization (ISI) was adopted by most countries with a colonial past. The IS1 strategy depended on the infant industry argument. It was considered essential to protect the home market for the Indian industrialists. Without such protection, it was felt that Indian industrialization would be destroyed by cheap imports. The Government of India had the choice between an export-led route to development by encouraging textile exports, and an import substitution route that depended on substituting - imports of finished consumer goods with domestic production. The Second Five-Year Plan gave the verdict in favor of the inward-oriented route. The IS1 model led to the development of a vast and diversified industrial and technological base, but it soon ran into trouble as the economic growth stagnated at the Hindu growth rate of 3.5 percent. The limitations of the IS1 model of development ultimately forced the Indian government to move toward export-oriented growth. This unit examines how the efforts of the Indian government to overcome the limitations of the IS1 strategy led to a shift towards export promotion policies, deregulation of the economy and the integration of the Indian economy with the international economy. The challenges faced by the Indian economy are also examined.

India adopted the strategy of ISI in the fifties. The chief objective was to build a self-reliant economy. Front the Second Five Year Plan, there was a determined thrust towards substitution of basic and capital goods industries. The ISI strategy was based on the model of growth as propounded by Mahalonobis. The lopsided growth which was a legacy of the colonial period was sought to be set right by adopting ISI. Deficiencies which were pronounced in the production of capital goods and basic intermediates were to be rectified by the import of machinery and critical intermediates. This was based on the reasoning that lack of industries producing investment goods could restrain high rates of investment and growth.

The Mahalanobis model stressed the significance of 'basic industries' for growth; and long-term patterns of growth were to be achieved by utilization of the products of these industries. Designing of time paths alone was not considered sufficient, but devising measures for achieving rates of

saving and consumption patterns corresponding to these time paths, was also considered as an integral part of the strategy.

The State was to play an active role in building a self-reliant economy, discriminating structure of protection was evolved to acquire foreign technology and for policies towards foreign investment. Import protection was to apply to new industries to give 'breathing space'. The infant-industry argument for protection was put forth.

In the Second Plan, the planners did not expect any significant increase in export earnings in the short run; during this period, some domestic and trade policies added up to a positive discrimination against exports; but they recognized 'that it is only after industrialization has proceeded some way, that increased production will be reflected in larger export earnings.

The IS1 strategy adopted since the Second Five Year Plan was intended to protect the home market with high customs duties for finished products. An overvalued exchange rate made imports cheap but exports expensive. For example, let us assume that the market driven exchange rate is Rs. 50 = $ 1, but India artificially kept the Rupee overvalued at Rs. 10 = $ 1. Then a machine costing $ 100 would be worth Rs. 50001 - in the first case, but only Rs. 10001- in the second case. Case 2 with an overvalued Rupee with respect to the dollar would yield a cheaper machine than Case 1, where the Rupee was valued at the market determined rate. Imports of capital goods such as heavy machinery used in factories were necessary for import substitution, since India could not produce these goods. These imports benefited from the overvalued exchange rate. Import licensing was used to check the rush of cheap imports, except where imports were absolutely necessary for import substitution.

Private industry was controlled through industrial licensing. In certain sectors, only those industrialists who had licenses could produce goods. For example, if an industrial house had a license for making cars, only it could manufacture the car. Others had to secure a separate license to manufacture a car. Moreover, multinational corporations headquartered in foreign countries were discouraged from setting operations in India.

This system led to a situation that promoted bribes and corruption, which is also called rent seeking. With government regulations in opposition to market forces, firms incurred substantial costs to gain government favors. For example, if an industrialist wanted to import a machine, he or she needed a license. If the industrialist needed to manufacture something, once again he or she had to secure a license. All these licenses could easily be obtained by doing favors for political parties, politicians or government servants. The same expenditure could have been used to make the finished product better or cheaper. The Indian economy was frittering away substantial sums in the form of rents when such expenditure on productive investment could have made Indian goods competitive in the world market. Allocating resources to determine the size of the license involved making trips to New Delhi, locating an office there, and bribing officials. According to one study, the total value of rents generated in India from public investment, imports, controlled commodities, credit rationing and the railways in 1964 was estimated to be nearly Rs. 15,000 million.

Private sector firms benefited from government involvement through regulations. The public sector would produce cheap inputs for the Indian private sector, which were subsidized by the government. If the public sector did not produce these inputs, they could be cheaply imported with the help of import licenses in the context of an overvalued Rupee. Private sector firms were funded largely by the government's financial institutions such as the Industrial Finance Corporation of India. Sometimes influential industrial houses produced more than their licensed capacity, something that the regulators would simply overlook. All this involved rent from industrialists to politicians and government officials.

Democracy and elections in India made politicians dependent on funds from domestic and foreign corporations. This produced a need-based relationship between the politician, the bureaucrat, and the industrialist. Government support for election funds is very limited. Even though political parties started filing tax returns since 1996, the amounts reported were conspicuously low. Since the 1980s, public sector and defense equipment deals have become a major source of election finance. In recent times, portfolios such as defense and areas of privatization such as telecommunications have become important sources for generating a party's resources.

Corruption promoting import-substituting industrialization (1%) negatively affected Indian productivity and competitiveness. A study found that the degree of clout of labor and industry in a particular sector played an important role in determining the degree of protection in that sector. The government subsidized bankrupt industrial units, which would never make profits. According to one study 17 out of 23 bankrupt industrial units were kept artificially alive through subsidized

credit sanctioned by the Board of Industrial and Financial Reconstruction. All this contributed to a decline in India's productivity. Indian goods were expensive and of low quality by world standards. India's share of the manufacturing exports of all developing countries came down from 22.1 percent in 1962 to 3.4 percent in 1990. It's share in the manufacturing exports of the world was 0.54 percent in 1991 compared with 0.84 percent in 1962.

In 1980, low rates of economic growth, the loss of an election, and Chinese success with trade convinced Prime Minister Indira Gandhi of the need to promote exports. Various committees of the Government of India had also pointed the need for increased exports for financing India's development. But business interests still pursued ISI. 'The Federation of Indian Chambers of Commerce and Industry (FICCI), the leading industry organization, sought reduction in the duty on intermediate goods such as newsprint, cement, and caustic soda, but was not prepared to take on 100% export-oriented units (EOUs) in the newly established free trade zones. It was tough to convert industry from manufacturers of low-quality products for home consumption, to manufacturers of internationally acknowledged brands.

Prime Minister Rajiv Gandhi sought to fight government controls after coming to power in 1984. His reform efforts met with marginal success because of strong political opposition. However, a substantial section of bureaucracy and politicians became convinced ofthe need for policy change. Rajiv Gandhi had brought in Montek Ahluwalia from the World Bank into the Prime Minister's Office (PMO). In June 1990, Ahluwalia circulated a paper arguing in favour of customs duty reduction, freer entry of foreign investment, and, a variety of measures that would increase the competitiveness of lndian exports and improve the conditions for Indian consumers. India had to find a way of overcoming political obstacles in the way of policy change.

Export Promotion:

Export promotion has become important means or economic growth. Growing export business helps in earning scarce foreign exchange and stimulating the domestic industry to manufacture the qualitative products for the world market. Moreover, with the increasing burden of debt servicing, export have emerged as the only viable source of meeting the foreign exchange needs of the country. Hence, ail out efforts should he made lo boos1 export. Efforts have been made in the new policy to create export friendly environment to promote export. Export Promotion has become the major thrust area for the government.

12.3 Facilities for Creation of Production Base

In order to increase the exports, strong production has needs to be created. Proper manufacturing facilities ensure large exportable surpluses. It requires large investment and easy availability of inputs to the manufacturing units.

Export Promotion Capital Goods (EPCG) Scheme: This scheme has been introduced for liberal import of capital goods. Under this scheme, capital goods for manufacture of goods and for providing services, call he imported at zero duty or 10% (duty against an obligation to export four items of CIF value over 5 years and six times of CIF value over 8 years respectively. Computer systems can also be imported under this scheme. Import of capital goods for farm sector may also be allowed.

Export Processing zones (EPZs): 100 % Export Oriented Units - The Export Processing Zones have been set up to provide an internationally competitive duly lice environment for export production. Various facilities have been provided to the units established in the zones so that they could produce the qualitative products at reasonable costs for the world market. There are seven EPZs in the country. They $re Kandla (Gujarat) Santacruz (Bombay) Falta (West Bengal), Noida (UP) Cochin (Kerala), Chennai (Tamil Nadu) and Visakhapatnam (Andhra Pradesh). The Santacruz Electronics Export Processing Zone is meant exclusively for export of electronic goods and gems and jewelry goods. The other zones are producing all types of products. Under the scheme of 100% EOU, the manufacturing units may be set up in any part of the country provided they are meant for exports. Electronics Hardware Technology Parks (EHTP) and Software Technology Park Units (STP) have also been established to encourage hardware and ' software exports.

Duty Free Licenses: In order to facilitate the supplies of imported raw materials to the export sector, the duty-free licenses have been provided. Import of raw materials, intermediates, components, consumables, parts, accessories, mandatory spares and packing materials may be permitted against a duty-free license. Duty free Licenses include Advance Licence, Advance Intermediate Licence and Special imprest Licence.

Advance licence is granted to a merchant exporter or manufacturer exporter for the import of inputs required for the manufacture of goods without payment of basic customs duty. Advance Intermediate licence is granted to a manufacture exporter for the import is required in the manufacture of goods to be supplied to the ultimate exporter. Special Imprest license is granted to a manufacturer exporter for the import of' inputs required in the manufacture of goods to be supplied to the categories mentioned in the policy. Duty Exemption Pass Book Scheme has been also provided to exporters.

12.4 Balance of Payment

The principal tool for the analysis of the monetary aspects of international trade is the balance of international payments settlement. This statement, also simply known as the 'balance of payments' (BOP), is a systematic record of all international economic transactions, visible and invisible, of a country during a given period, usually a year. In other words, the statement is a device for recording all the economy transactions within a given period between the residents of a country and the residents of other countries. The BOP of each of the individual countries, technically speaking, always balances. Such equality in the debit and credit sides of the BOP, known as equilibrium, has no economic significance. It simply results from the double entry book-keeping procedure which is used to record the transactions.

The analysis of the BOP can be done in terms of its two major sub-divisions: (a) Current Account, and (b) Capital Account.

Current Account:

The Current Account can be broken down into two parts, viz., one, balance of trade, and, two, balance on invisibles. The Balance of Trade (BOT) deals only with exports and imports of merchandise (or visible items). The Balance on Invisibles (BOI) shows net receipts on account of invisibles. These include the remittances, net service payments, etc. It is not necessary that the BOT should always balance; more often than not, it will show either a surplus or a deficit on BOI. If the surplus on BOI equals the deficit on BOT, the current account will show a net balance. But then there is no reason why these two balances should always be equal, again, always in opposite directions. As a matter of fact, the balance on current account can always show a deficit or a surplus. A surplus on current account leads to an acquisition of assets or repayment of debts previously contracted, and a deficit involves withdrawal of previously accumulated assets or is met by borrowings.

Capital Account

The capital Account presents transfers of money and other capital items and changes in the country's foreign assets and liabilities resulting from the transactions recorded in the current account. The deficit on the current account and on account of capital transactions can be financed by external assistance (loans and grants) drawing from the International Monetary Fund and allocation of the Special Drawing Rights.

The BOP accounts provide a link between the increase in gross external debt and the portfolio and spending decisions of the economy.

Thus, increase in gross external debt =

Current account deficit (CAD)

– direct and long-term portfolio capital inflows

+ official reserve increases

+ other private capital outflows

The above equation shows that an increase in external debt can have three broad sources: current account deficits not financed by long-term capital inflows, borrowing to finance a reserve build-up or private outflows of capital.

Trend in India's Balance of Payments

India had faced pressures on BOP from time to time either due to certain domestic compulsions or due to external factors. The whole period, covering nearly six decades, can be divided into two sub-periods, viz. (i) Before 1991, and (ii) since 1991.

i) Period I (Before 1991)

The entire period was very difficult for India's BOP, partly because of slow growth of exports in relation to import requirements and partly because of adverse external factors. Foreign exchange reserves were at a low level, generally less than necessary to cover three months' imports. Almost the entire CAD (92 per cent) was financed by inflows of external assistance.

(US$ million)

	2016-17	2017-18	2018-19	2019-20	2020-21*
1	2	3	4	5	6
A. CURRENT ACCOUNT					
1 Exports, f.o.b.	2,80,138	3,08,970	3,37,237	3,20,431	2,05,174
2 Imports, c.i.f.	3,92,580	4,69,006	5,17,519	4,77,937	2,65,378
3 Trade Balance	-1,12,442	-1,60,036	-1,80,283	-1,57,506	-60,204
4 Invisibles, Net	98,026	1,11,319	1,23,026	1,32,850	92,554
a) 'Non-Factor' Services *of which :*	68,345	77,562	81,941	84,922	64,996
Software Services	70,763	72,186	77,654	84,643	66,171
b) Income	-26,302	-28,681	-28,861	-27,281	-27,060
c) Private Transfers	56,573	62,949	70,601	76,217	55,331
5 Current Account Balance	-14,417	-48,717	-57,256	-24,656	32,350
B. CAPITAL ACCOUNT					
1 Foreign Investment, Net (a+b)	43,224	52,401	30,094	44,417	69,676
a) Direct Investment	35,612	30,286	30,712	43,013	40,819
b) Portfolio Investment	7,612	22,115	-618	1,403	28,857
2 External Assistance, Net	2,013	2,944	3,413	3,751	7,174
3 Commercial Borrowings, Net	-6,102	-183	10416	22,960	-6,362
4 Short Term Credit, Net	6,467	13,900	2,021	-1,026	-1,784
5 Banking Capital of which :	-16,616	16,190	7,433	-5,315	-16,642
NRI Deposits, Net	-12,367	9,676	10,387	8,627	7,903
6 Rupee Debt Service	-99	-75	-31	-69	-57
7 Other Capital, Net[#]	7,559	6,213	1,057	18,462	-1,151
8 Total Capital Account	36,447	91,390	54,403	83,180	50,854
C. Errors & Omissions	-480	902	-486	974	693
D. Overall Balance [A(5)+B(8)+C]	21,550	43,574	-3,339	59,498	83,897
E. Monetary Movements (F+G)	-21,550	-43,574	3,339	-59,498	-83,897
F. IMF, Net	0	0	0	0	0
G. Reserves and Monetary Gold (Increase -, Decrease +)	-21,550	-43,574	3,339	-59,498	-83,897
***of which:* SDR allocation**	0	0	0	0	0
Memo: As a ratio to GDP					
1 Trade Balance	-4.9	-6.0	-6.7	-5.5	-3.2
2 Net Services	3.0	2.9	3.0	3.0	3.4
3 Net Income	-1.1	-1.1	-1.1	-1.0	-1.4
4 Current Account Balance	-0.6	-1.8	-2.1	-0.9	1.7
5 Capital Account, Net	1.6	3.4	2.0	2.9	2.7
6 Foreign Investment, Net	1.9	2.0	1.1	1.5	3.7

ii) After 1991

The prominent features of the BOP situation as it has emerged over the last two decades can be briefly summarized as follows:

1) On the current account: (i) Trade deficits have been widening. Both exports and imports have multiplied fast, but imports have risen at a faster rate than exports. Expanding imports in turn reflect (a) the impact of liberalisation measures, and (b) increasing manufacturing activity in the domestic economy. (ii) There has been a phenomenal increase in net surplus on account of invisibles. This, in turn, is principally due to (a) buoyancy in private transfers (i.e., inward remittances), and fast expansion in exports of services, especially software. India is unique among emerging economies to have a sizable invisible surplus that substantially offsets the merchandise trade deficit. As a result, although India has been running a current account deficit (except during 2002-04 when India experienced a current account

surplus), the deficit has been conveniently manageable, largely because of huge surplus on capital account.

2) On the capital account, India has been running a big surplus. The size of surplus has been much more than what is required to finance the current account deficit. As a result, India has been rapidly building up its foreign exchange reserves. The capital account demonstrates following features: (i) Both inflows and outflows of capital have increased, especially since 2003. (ii) The composition of capital flows is undergoing a change: (a) Official external assistance has been gradually losing out its significance; (b) FDI and portfolio investment have surged, and among the two, the inflows on account of FDI have been more than on account of portfolio investment (except 2010-11 when the trend got reversed). (c) With easing of controls, external commercial borrowings have been coming back into prominence.

Overall, India's balance of payments (current account plus capital account) has been in surplus, resulting in rapid build-up of foreign exchange reserves. This has been due largely to massive inflows of foreign capital. Indeed, the acceleration in India's growth momentum since 2003 owes partly to the exceptionally easy global liquidity conditions that have increased risk-taking and also amplified the volume of capital inflows into India.

12.5 India and WTO

The General Agreement on Tariff and Trade (GATT) was established in 1948 in Geneva to pursue the objective of free trade in order to encourage growth and development of all member countries. The principal purpose of GATT was to ensure competition in commodity trade through the removal or reduction of trade barriers. The first seven rounds of negotiations conducted under GATT were aimed at stimulating international trade through reduction in tariff barriers and also by reduction in nontariff restrictions on imports imposed by member countries. GATT did provide a useful forum for discussion and negotiations on international trade issues.

But,The Uruguay round of agreement provided for the setting up of an international trade organisation by the name of World Trade Organisation (WTO). The WTO started functioning from January 1, 1995. At present, the WTO has 153 countries as its members

12.6 Objectives of the WTO

The agreement establishing WTO reiterated the objectives of the GATT. More specifically, the WTO outlined its objectives to include the following under its scope.

a) Raise standard of living and incomes by ensuring: (i) full employment, (ii) expanding production and trade, and (iii) optimal use of world's resources;
b) Adopt the idea of sustainable development in relation to the optimal use of world's resources i.e. reinforce the need to protect and preserve the environment in a manner consistent with the various levels of national economic development; and
c) Recognize the need for positive efforts to ensure that developing countries secure a better share of growth in international trade

12.7 Principles of the WTO

In its broad perspective, the WTO was to strive at creating a liberal and open trading environment by which business enterprises could trade under conditions of fair and undistorted competition. Towards the achievement of this, the four principles that were laid down to guide the trading rules of its members are as follows:

1. Most Favoured Nation (MFN) Treatment: The principle of MFN treatment laid that tariffs and regulations must be applied to imports or exports without discrimination among members. In other words, no member country was to be accorded a treatment of 'a favoured nation';

2. National Treatment: It prevents discrimination between imported products and equivalent domestically produced goods, especially in levying internal taxes and domestic regulations;

3. Protection Through Tariffs: While advocating liberal trade, the WTO recognises that some members may need to protect their domestic production against foreign competition. The underlying principle was, however, that such protections through tariffs must be kept at low levels in what was called as 'bound tariff framework';

4. Bound Tariffs: The principle of 'bound tariff' advises the member countries to reduce and gradually eliminate protection to domestic production. By seeking to reduce tariffs and eliminating non-tariff barriers, the principle requires the member countries to commit in their respective national schedules against further increase of tariff levels at later points of time. In other words, the reduction and ultimate phase-outs of tariffs was meant to provide the cushion time required for gaining competitive strength and the tariffs were to be phased out firmly in a committed time frame.

12.8 Functions of the WTO

The WTO is meant to perform the following functions:

1. Administer through various councils and committees, the 29 agreements contained in the final Act of the Uruguay round of world trade talks, plus a number of plurilateral agreements, including those on government procurement;
2. Oversee the implementation of the significant tariff cuts (average 40 percent) and reduction of non-tariff measures agreed to in the trade negotiations;
3. Act as a watchdog of international trade by regularly examining the trade regimes of individual members;
4. Ensure that members notify in detail various trade measures and statistics, which are to be maintained by the WTO in a large database;
5. Provide several conciliatory mechanisms for arriving at an amicable solution to trade conflicts among members;
6. Resolve trade disputes that cannot be solved through bilateral talks by adjudication in the WTO dispute settlement court;
7. Act as a management consultant for world trade by having its economists keep a close watch on the pulse of the global economy and provide inputs to WTO by studies conducted on the main issues of the day; and
8. Assist developing countries through its secretariat to implement the Uruguay round agreements through a newly-established development division and a technical co-operation and training division.

   The WTO is, thus, a forum where countries continuously negotiate the exchange of trade concessions and trade restrictions all over the world. The WTO has a substantial agenda for further negotiations in many areas, notably certain services sectors.

12.9 WTO Agreements

WTO administers a set of agreements, among which the more important are the following:

1. **GATT 1994**: The cornerstone of trade relations is the area of goods. Differential and most favoured treatment (MFT) to UDCs and LDCs is permitted under the 1979 enabling clause with respect to tariffs and non-tariff measures. This is notwithstanding the MFN treatment principle which prohibits such favoured treatment to any country as a rule.
2. **Agreement on Agriculture (AOA):** The approach adopted here is to encourage gradual reduction of trade distorting subsidies. The AOA specifically deals with: (i) providing market access, (ii) containing of export subsidies, and (iii) regulating domestic support.

i) Market Access: The AOA requires tariffication of all NTBs, and a reduction of those tariffs by an average of 36 percent for developed countries and 24 percent for UDCs. Developed countries were given 6 years to bring about these reductions, while developing countries are given 10 years. The time counting has begun from 1995.

ii) Export Subsidies : Export subsidies have to be reduced by 36 percent in budgetary terms and 21 percent in volume over a six-year period. The developing countries have been given lower reduction targets of 24 and 14 percent respectively over a longer period of 10 years.

iii) Domestic Support: A distinction has been made between subsidies that did not distort trade and those that do. Only the trade distorting subsidies have to be reduced, if they are above the permissible level. The following have been exempted from this provision.

a) Green Box: Subsidies with no, or minimally trade distorting, effect have been put in this box. These are not subject to any reduction commitments. It includes all government service programmes.

b) Blue Box: It contains those subsidies whose continuation is subject to a limitation on production.

c) White Box: It includes such subsidy practices in developing countries like investment subsidies, agricultural input subsidies available to low-income or resource-poor farmers and measures to encourage diversification from growing illicit narcotic crops. All other domestic support measures are subject to reduction commitment.

3. **Agreement on Sanitary and Phyto-Sanitary (SPS) Measures**: SPS measures are those applied to protect human, animal or plant life from certain risks. These risks are those arising from the entry, establishment or spread of pests, diseases and disease-carrying or diseases causing organisms. The risks also include risks arising from additives, contaminants or toxins. Disease causing organisms in food, beverages and foodstuffs and from risks arising from diseases carried by animals, plants and products are also covered under this agreement. SPS measures include all relevant laws, decrees, regulations, requirements and procedures, including end-product criteria, processes and production methods, testing, inspection, certification and approval procedures, quarantine treatments, provisions on relevant statistical methods, sampling procedures and methods of risk assessment, packaging and labelling requirements directly related to food safety. SPS measures must be based on international standards, guidelines or recommendations where they exist. It is open to a country to adopt a level of SPS protection higher than that of the relevant international standards, if there is a scientific justification or if it is needed by the appropriate level of SPS protection in that country. Members are allowed to provisionally adopt such SPS measures which, on the basis of available pertinent information and relevant scientific evidence are the best possible measures at the current juncture, although they fall

short of the standards set by the WTO. Such provisional measures need to be reviewed within 'a reasonable period of time'.

4. **Agreement on Anti-Dumping (ADA):** The objective of this agreement is to provide the right to the contracting parties to apply anti-dumping measures. These are measures against imports of a product if such imports cause injury to a domestic industry in the territory of the contracting party. The ADA allows member-nations to apply anti-dumping measures on a unilateral basis after elaborate investigations. The anti-dumping investigation determines whether:

a) an imported product has been dumped;
b) it has caused material injury to the domestic industry of a like product; and
c) there is a causal link between dumped imports and the injury.

If the investigations establish these three factors, the government is allowed to levy anti-dumping duty on imports. This duty could be levied on imports either from a specific country or a group of countries. The ADA provides that all countervailing duties should be terminated within five years of their imposition unless a review determines otherwise.

5. **Agreement on Technical Barriers to Trade (TBT):** The objective of this agreement is to ensure that mandatory product standards should not be so applied to countries as to cause 'unnecessary obstacles to international trade'. It visualises that mandatory product standards do not create such barriers if based on internationally agreed standards. It also recognizes that countries have a right to establish protection, at levels they consider appropriate (concerning the human, animal or plant life or health of the environment), and that countries should not be prevented from taking such measures as are necessary to ensure that those levels of protection are met. Technical regulations and standards cover product characteristics, process and production characteristics, terminology and symbols and packaging and labelling requirements as they apply to the products. The TBT encourages countries to use international standards where appropriate, but does not require change in the level of protection as a result of standardization. It recognizes right of member countries to adopt technical regulations and standards as well as conformity assessment procedures for the purpose of:
   (i) national security requirements,
   (ii) (ii) prevention of deceptive practices,
   (iii) (iii) protection of human health or safety, animal or plant life or health of the environment.

6. **Agreement on Trade-Related Investment Measures (TRIMs):** Beginning 1995, GATT's inconsistent agreement on TRIMs were required to be notified and eliminated within a transition period of two years (for developed countries), five years (for developing countries) or seven years (for least-developed countries). A further extension may be requested by developing and least-developed countries. The agreement on safeguards prohibits the use of 'grey-area measures' such as voluntary restrains or orderly marketing arrangements, and requires that such measures are both notified and eliminated within a time frame.

7. **Agreement on Textiles and Clothing:** This provides for the eventual elimination of the multi-fibre arrangement (MFA) after a ten-year transition period. In place since 1973, The MFA has since been terminated with effect from January 1, 2005.

8. **General Agreement on Trade in Services (GATS):** It is the first multilateral agreement on trade that has as its objective the progressive liberalisation of trade in services. The GATS covers trade in all service sectors and the supply of service in all forms. Every member is

bound to open up its service sector, with exceptions only in (i) non-commercial services like health-care and education, (ii) measures affecting air-traffic rights and services, and (iii) other services for which a country has sought partial or full exemption before signing the treaty (for example, India sought exemptions for legal and accounting services).

9. **Agreement on Trade-Related Intellectual Property Rights (TRIPs):** The main features of this agreement are as follows:

a) minimum standards of protection to be provided by each member;

b) domestic procedures and remedies for the enforcement of intellectual property rights to be evolved and put in place;

c) dispute settlement mechanisms for the WTO member countries to be instituted.

TRIPs agreements cover the following areas: copyright and related rights, trademarks including service marks, geographical indications including appellations of origin, industrial designs, patents including the protection of new varieties of plants, the lay-out designs of integrated circuits and undisclosed knowledge including trade secrets and test dates.

10. **Agreement on Government Procurement (GPA):** The GPA provides a vehicle for the progressive opening of markets to international competition through legally enforceable provisions of nondiscrimination which apply to procurements 'covered' by the agreement. In addition, various provisions of the agreement relating to the provision of information to potential suppliers, contract awards, qualification of suppliers and other elements of the procurement process aim at ensuring transparency and non-discriminatory conditions of competition among suppliers. India, as yet is not a signatory to GPA, although other major developing countries such as China and Saudi Arabia have made commitments to eventually seek accession to it.

Summary

India's foreign trade has grown remarkably, both in terms of value and quantity, since the beginning of economic planning. The policy of industrial and trade liberalization introduced in 1991 has given a new turn to the growth of both imports and exports. However, imports have always exceeded exports which means that India has become a perennially trade deficit country.

- All these shows clearly that, despite remarkable growth, India has to go a long way in:
- attaining economic self-sufficiency in the form of paying for imports through exports
- improving the competitiveness of its goods in terms of price and quality to increasingly penetrate the world market
- diversification of exports, especially in terms of heavy manufactures
- Realizing foreign trade as a major sector of the economy in terms of GNP

Keywords

- Bretton-woods: Refers to the two institutions of IMF and Institutions World Bank following their establishment as a result of a conference held in a place called Bretton-woods in 1944 as a sequel to the need felt for extending economic support following the end of II World War.
- General Agreement on Tariffs and Trade: An organization set up by the rich developed Tariffs and Trade countries in 1947. It was biased in favor (GATT) of the rich countries and hence was dubbed as the 'rich men's club'.
- World Trade: An international organization set up in 1995. Organization (WTO) This organization too came up as a result of the initiative and support of the members of GATT. However, its functioning was more democratic mainly in view of the change in the

economic atmosphere which had seen the coming up of many newly industrially advanced countries since GATT.

- TRIPs and TRIMs: Two agreements under WTO for protection of 'intellectual properties' and 'trade related investment measures.
- Import Substitution: The process of developing industries to produce those goods which are currently imported with the objective to acquire indigenous capability to produce imported goods and curtail imports.
- Balance of Trade (or trade balance) Refers to the difference between the values of exports and imports. If the value of exports is more than the value of imports, the trade balance is said to be positive or favorable. If the value of imports is more than the value of exports, the trade balance is said to be unfavorable or negative.

Self Assessment

1. In the seventies, India followed what type of trade policy.

A. Protective trade policy
B. Free trade policy
C. Restrictive trade policy
D. None of the above

2. Bhagwati and Krueger gave how many phases to evaluate the evolution of foreign trade policy of a country.

A. 2
B. 3
C. 4
D. 5

3. The export subsidization policy introduced in 1962 belonged to which phase given by Bhagwati and Krueger.

A. I
B. II
C. III
D. IV

4. Ad valorem custom duty is an example of

A. Tariff restriction
B. Non-tariff restriction
C. Both the above
D. None of the above

5. "It is a systematic record of all economic transactions of a country with the rest of the world in a given period of time." This definition of Balance of Payment was given by whom.

A. Bo Soderston
B. Prof. Kindelberger
C. Paul Krugman
D. None of the above

6. ……. are those that involve the receipt of payments from foreigners.

A. Credit transactions

B. Debit transactions

C. Information insufficient

D. None of the above

7. ……. are those that involve payments to foreigners.

A. Credit transactions

B. Debit transactions

C. Information insufficient

D. None of the above

8. An …… refers to the exchange of a good, service, or asset (for which payment is usually required) between the residents of one nation and the residents of other nations.

A. Local transactions

B. National transactions

C. International transactions

D. All the above

9. Which agency in India maintains the foreign exchange reserves?

A. Ministry of Finance

B. Central Statistical Organisation

C. NITI Aayog

D. Reserve Bank of India

10. What is the frequency of publishing foreign exchange reserves report?

A. Monthly

B. Quarterly

C. Half yearly

D. Annually

11. SAARC Swap arrangement is included in

A. FCA

B. SDR

C. RTP

D. Forex Reserves

12. Which of the currency is not included in the valuation of SDR?

A. US Dollar

B. Yen

C. Euro

D. Swiss Franc

13. Where is the headquarter of WTO located?

A. New York

B. London

C. Geneva

D. Brussel

14. Which is the last country to join WTO?

A. China

B. Afghanistan

C. Liberia

D. Kazakhstan

15. Was any commitment made by the Government of India regarding agriculture to WTO?

A. True

B. False

Answers for Self Assessment

1.	A	2.	D	3.	B	4.	A	5.	B
6.	A	7.	B	8.	C	9.	D	10.	C
11.	A	12.	D	13.	C	14.	B	15.	B

Review Questions

1. What do you mean by current accounts deficit in balance of payments?
2. Why did India face the adverse balance of payment prior to 1991?
3. What do you understand by the term openness of Indian economy?
4. Discuss the role and significance of foreign trade for a developing economy.
5. Analyse the major trends in the growth of India's foreign trade
6. Enumerate in brief the major achievements of the WTO.
7. What is Doha round of negotiations?

Further Readings

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Unit 13: Monetary Policy

CONTENTS

Objectives
Introduction
13.1 Meaning of Central Bank
13.2 Functions of Central Bank of India (RBI)
13.3 Developmental / Promotional Functions of RBI
13.4 Supervisory Functions of RBI
Summary
Keywords
Self Assessment
Answers for Self Assessment
Review Questions
Further Readings

Objectives

After studying this unit, you will be able to,

- Discuss the role and functions of Reserve Bank of India
- Understand the need of Monetary policy committee

Introduction

A central bank is the apex institution of a country's monetary and financial system. It plays a leading role in organizing, running, supervising and regulating the activities of commercial banks and other financial institutions in the country. The design and conduct of monetary and credit policies are its special responsibilities. Hence, the central bank plays a very important role in the balanced development of a modem economy.

13.1 Meaning of Central Bank

All developed and most of developing countries have a central bank. However, in most countries the central bank is a 20th century financial institution. The Bank of End, the oldest central bank in the world, was set up in 1694 as a joint stock company by- an Act of Parliament. The Federal Reserve Bank in USA was established in 1913. In India, the Reserve Bank of India was set up on April I, 1935 under the Reserve Bank of India Act, 1934. The central bank occupies a pivotal position in the monetary and banking structure of every country. It is the highest monetary institution and a leader of the financial system of the 'country. However, it is not easy to give any precise and accurate definition of central bank.

The definition of a central bank is largely derived from its functions. As functions of central banks vary between countries and over time, so does the definition of a central bank. Different economists have defined central bank differently.

In the opinion 'of W. A. Shah, 'CentraI Bank is that bank which controls credit' whereas Hawtrey holds the view that 'the central bank is the lender of the last resort'.

In the statutes of the Bank for International Settlements, a central bank has been defined as 'the bank inany country to which has been entrusted the duty of regulating the volume of currency and credit in the country.'

According to Kisch and Elkin a central bank is 'that bank the essential duty of which is maintenance of stability of monetary standard,'

R.P. Kent ha. defined it as an 'institution charged with the responsibility of managing the expansion and contraction of the volume of money in the interest of the general public welfare'.

13.2 Functions of Central Bank of India (RBI)

Main functions are those functions which every central bank of each nation performs all over the world. Basically, these functions are in line with the objectives with which the bank is set up. It includes fundamental functions of the Central Bank. They comprise the following tasks.

1. ***Issue of Currency Notes:*** The RBI has the sole right or authority or monopoly of issuing currency notes except one rupee note and coins of smaller denomination. These currency notes are legal tender issued by the RBI. Currently it is in denominations of Rs. 2, 5, 10, 20, 50, 100, 500, and 1,000. The RBI has powers not only to issue and withdraw but even to exchange these currency notes for other denominations. It issues these notes against the security of gold bullion, foreign securities, rupee coins, exchange bills and promissory notes and government of India bonds.

2. ***Banker to other Banks:*** The RBI being an apex monitory institution has obligatory powers to guide, help and direct other commercial banks in the country. The RBI can control the volumes of banks reserves and allow other banks to create credit in that proportion. Every commercial bank has to maintain a part of their reserves with its parent's viz. the RBI. Similarly, in need or in urgency these banks approach the RBI for fund. Thus, it is called as the lender of the last resort.

3. ***Banker to the Government***: The RBI being the apex monitory body has to work as an agent of the central and state governments. It performs various banking function such as to accept deposits, taxes and make payments on behalf of the government. It works as a representative of the government even at the international level. It maintains government accounts, provides financial advice to the government. It manages government public debts and maintains foreign exchange reserves on behalf of the government. It provides overdraft facility to the government when it faces financial crunch.

4. ***Exchange Rate Management:*** It is an essential function of the RBI. In order to maintain stability in the external value of rupee, it has to prepare domestic policies in that direction. Also, it needs to prepare and implement the foreign exchange rate policy which will help in attaining the exchange rate stability. In order to maintain the exchange rate stability, it has to bring demand and supply of the foreign currency (U.S Dollar) close to each other.

5. ***Credit Control Function***: Commercial bank in the country creates credit according to the demand in the economy. But if this credit creation is unchecked or unregulated then it leads the economy into inflationary cycles. On the other credit creation is below the required limit then it harms the growth of the economy. As a central bank of the nation the RBI has to look for growth with price stability. Thus, it regulates the credit creation capacity of commercial banks by using various credit control tools.

6. ***Supervisory Function:*** The RBI has been endowed with vast powers for supervising the banking system in the country. It has powers to issue license for setting up new banks, to open new branches, to decide minimum reserves, to inspect functioning of commercial banks in India and abroad, and to guide and direct the commercial banks in India. It can have periodical inspections an audit of the commercial banks in India.

13.3 Developmental / Promotional Functions of RBI

Along with the routine traditional functions, central banks especially in the developing country like India have to perform numerous functions. These functions are country specific functions and can change according to the requirements of that country. The RBI has been performing as a promoter of the financial system since its inception. Some of the major development functions of the RBI are maintained below.

1. ***Development of the Financial System:*** The financial system comprises the financial institutions, financial markets and financial instruments. The sound and efficient financial system is a precondition of the rapid economic development of the nation. The RBI has encouraged

establishment of main banking and nonbanking institutions to cater to the credit requirements of diverse sectors of the economy.

2. ***Development of Agriculture:*** In an agrarian economy like ours, the RBI has to provide special attention for the credit need of agriculture and allied activities. It has successfully rendered service in this direction by increasing the flow of credit to this sector. It has earlier the Agriculture Refinance and Development Corporation (ARDC) to look after the credit, National Bank for Agriculture and Rural Development (NABARD) and Regional Rural Banks (RRBs).

3. ***Provision of Industrial Finance***: Rapid industrial growth is the key to faster economic development. In this regard, the adequate and timely availability of credit to small, medium and large industry is very significant. In this regard the RBI has always been instrumental in setting up special financial institutions such as ICICI Ltd. IDBI, SIDBI and EXIM BANK etc.

4. ***Provisions of Training:*** The RBI has always tried to provide essential training to the staff of the banking industry. The RBI has set up the bankers' training colleges at several places. National Institute of Bank Management i.e NIBM, Bankers Staff College i.e BSC and College of Agriculture Banking i.e CAB are few to mention.

5. ***Collection of Data***: Being the apex monetary authority of the country, the RBI collects process and disseminates statistical data on several topics. It includes interest rate, inflation, savings and investments etc. This data proves to be quite useful for researchers and policy makers.

6. ***Publication of the Reports***: The Reserve Bank has its separate publication division. This division collects and publishes data on several sectors of the economy. The reports and bulletins are regularly published by the RBI. It includes RBI weekly reports, RBI Annual Report, Report on Trend and Progress of Commercial Banks India., etc. This information is made available to the public also at cheaper rates.

7. ***Promotion of Banking Habits***: As an apex organization, the RBI always tries to promote the banking habits in the country. It institutionalizes savings and takes measures for an expansion of the banking network. It has set up many institutions such as the Deposit Insurance Corporation-1962, UTI-1964, IDBI-1964, NABARD-1982, NHB-1988, etc. These organizations develop and promote banking habits among the people. During economic reforms it has taken many initiatives for encouraging and promoting banking in India.

8. ***Promotion of Export through Refinance***: The RBI always tries to encourage the facilities for providing finance for foreign trade especially exports from India. The Export-Import Bank of India (EXIM Bank India) and the Export Credit Guarantee Corporation of India (ECGC) are supported by refinancing their lending for export purpose.

13.4 Supervisory Functions of RBI

The reserve bank also performs many supervisory functions. It has authority to regulate and administer the entire banking and financial system. Some of its supervisory functions are given below.

1. ***Granting license to banks:*** The RBI grants license to banks for carrying its business. License is also given for opening extension counters, new branches, even to close down existing branches.

2. ***Bank Inspection:*** The RBI grants license to banks working as per the directives and in a prudent manner without undue risk. In addition to this it can ask for periodical information from banks on various components of assets and liabilities.

3. ***Control over NBFIs:*** The Non-Bank Financial Institutions are not influenced by the working of a monitory policy. However, RBI has a right to issue directives to the NBFIs from time to time regarding their functioning. Through periodic inspection, it can control the NBFIs.

4. ***Implementation of the Deposit Insurance Scheme***: The RBI has set up the Deposit Insurance Guarantee Corporation in order to protect the deposits of small depositors. All bank deposits below Rs. One lakh are insured with this corporation. The RBI work to implement the Deposit Insurance Scheme in case of a bank failure.

Reserve Bank of India's Credit Policy

The Reserve Bank of India has a credit policy which aims at pursuing higher growth with price stability. Higher economic growth means to produce more quantity of goods and services in different sectors of an economy; Price stability however does not mean no change in the general price level but to control the inflation. The credit policy aims at increasing finance for the agriculture and industrial activities. When credit policy is implemented, the role of other commercial banks is very important. Commercial banks flow of credit to different sectors of the economy depends on the actual cost of credit and arability of funds in the economy.

Instruments of Monetary Policy

The instruments of monetary policy to control credit are divided into two categories, viz., Quantitative and Qualitative. Quantitative measures are nondiscriminatory in nature, say for example, when a certain interest rate is set by the central bank of a country, that rate applies to the banking system of the country as a whole. In contrast, Qualitative / Selective measures vary from one section of society to the other.

Quantitative Instruments

The important quantitative credit control instruments of the monetary policy are as follows:

1. Repo Rate
2. Bank Rate
3. Open Market Operations
4. Change in Minimum Reserve Ratio
5. Change in Liquidity Ratio

Repo Rate:

The most noticed and significant instrument of monetary policy is the repo rate. It is the rate at which commercial banks borrow money from the RBI on submission of collateral such as securities. Similarly, commercial banks can deposit their excess reserves in the central bank for which the 'reverse repo rate' is applicable. The repo rate is periodically decided by the RBI. Other rates, such as reverse repo rate, bank rate, and marginal standing facility (MSF) rate get automatically adjusted as a fixed percentage above repo rate.

The RBI uses repo rate to manage inflation, economic growth and balance of payments. When inflation rate is high, the RBI can increase repo rate so that interest rates increase, leading to decline in aggregate demand. On the other hand, the RBI can decrease repo rate when economic growth is sluggish.

The banks are allowed to borrow from RBI at repo rate under the Liquidity Monetary Policy Adjustment Facility (LAF). Deposit of excess liquidity with RBI is also made under the LAF. This arrangement helps the bank to manage liquidity pressure and resolve short term cash shortages. In addition to the LAF, the RBI has 'Marginal Standing Facility' (MSF), which facilitates provision of overnight loans to commercial banks. The objective is to meet unanticipated shocks such as large scale withdrawal of cash by customers. The MSF thus receives a penal interest rate above the repo rate.

Bank Rate:

Bank rate is the rate of interest at which the central bank provides loans to commercial banks and other financial institutions.

Increase in bank rate has the effect of increasing the rate of interest in the economy. Similarly, decrease in bank rate lowers the rate of interest in the economy. Higher bank rate lowers the extent of credit creation in the economy which leads to a decline in aggregate demand and hence lower prices. On the other hand, in a recessionary phase a lower bank rate is proposed.

It is difficult to predict the impact on change in bank rate on bank borrowings. This is because bank rate itself is not the key lending rate, though is does form the basis for the multiplicity of RBI's lending rates charged for different types of advances. The impact of change in bank rate on bank's borrowings depends on various factors such as (a) the degree of bank's dependence on borrowed

reserves, (b) the sensitivity of the banks' demand for borrowed reserves to the differential between their lending rates and borrowing rates (c) the extent to which other rates of interest have already changed or change subsequently (d) the state of the demand for loans and the supply of funds from other sources, etc. Banks are not discouraged from borrowing in the face of higher bank rates if the market interest rates are high such that banks expect higher returns from borrowed funds.

There is a subtle difference between repo rate and bank rate. Financial institutions can borrow from the RBI at the bank rate without submission of any collateral. On the other hand repo rate is charged for re-purchase of securities issued by the RBI. Further, bank rate is higher than repo rate.

Open Market Operations:

The central bank exercises control over the money supply through sale and purchase of government securities. The term 'open market operations' (OMO) refers to the sale/purchase of government securities by the central bank to/from the public and banks. While purchase of government securities in open market increases the high powered money (H), an open market sale of government securities decreases H by an equal amount.

Following the change in 'H', the usual money multiplier (mm) process leads to change in money supply (M). In order to follow a contractionary monetary policy to check inflation, the central bank decreases money supply by selling securities. In a situation of falling prices, the central bank buys securities for increasing the money supply in the economy. Such an expansionary monetary policy helps in boosting aggregate demand and reviving the economy from recession.

Open market operations are flexible and reversible in time. Hence, it is considered to be an efficient instrument of monetary control. Moreover, unlike bank rate and reserve requirements, it is free from 'announcement effects' as no prior public announcement has to be made to conduct these operations. The direct effect on H is immediate and the amount of H created or destroyed is precisely determinable. There are indirect effects also such as interest rate changes.

Purchase and sale of securities in the open market by the central bank or the monetary authority is popularly known as open market operations. In order to contract the credit in the economy, the central bank sells securities in the open market. This leads to fall in aggregate demand and reduction in price level. Whereas, when credit is to be expanded, there is purchase of securities by the central bank in the open market. This leads to increase in aggregate demand and production levels in the economy.

Cash Reserve Ratio:

A certain fraction of total assets is always kept by banks as cash partially to comply with the statutory reserve requirements and partially for meeting day-today cash payments. Cash is held as 'cash on hand' and as cash balances with the central bank. These are known as cash reserves of banks which are classified as 'required reserves' and 'excess reserves'.

Banks are statutorily required to hold cash balances with the central bank. In India, the RBI has the power to impose statutorily 'cash reserve ratio' (CRR) on banks anywhere between 3-15 per cent of the net demand and time liabilities. A higher CRR implies lower liquidity in the system. Thus, when the central bank plans to increase liquidity in the economy, it decreases the CRR and vice versa.

Cash Reserve Ratio varies across countries. For example, in 2019, it is as high as 45 per cent in Brazil and as low as 1 per cent in the European Union. In India, as on April 2019, the CRR was 4 per cent. Further, CRR varies over time for the same country, depending upon the economic environment.

Banks also hold excess reserves, apart from required reserves. These are held in excess of required reserves. These excess reserves are used to meet the currency drains, i.e., the net withdrawal of currency by depositors, and clearing drains which is the net loss of cash due to cross clearing of cheques among banks. Large part of excess reserves is held as cash on hand, remaining small part is held as Monetary Policy excess balances with the RBI.

By varying the reserve requirements, the RBI uses the CRR as a tool of controlling money supply. When CRR is raised, banks hold larger cash balances with the RBI. Since reserves are a part of 'H' or high powered money, this essentially means that a part of H is withdrawn from the public equaling the amount of additional reserves impounded. On the other hand, lowering of CRR amounts to a virtual increase in H, which results in an increase in money supply 'M'. In this manner, the CRR serves as an instrument of monetary control. In case of inflation, CRR is increased, thus decreasing the lending ability of banks. Alternately, by lowering the CRR, credit expansion by banks increases.

Statutory Liquidity Ratio

Besides CRR, banks are also required to meet the statutory liquidity ratio (SLR) requirements. The RBI Act stipulates that banks are required to hold a certain fraction of their demand and time liabilities in the form of "liquid assets in their own vault".

This is called the "Statutory Liquidity Ratio". Liquid assets include cash, gold and approved securities, mainly the government securities. Banks prefer government securities as they earn interest income. The central bank uses SLR to check the money supply in the economy. Increasing SLR decreases liquidity in the economy and vice-versa. As on July2019, the SLR rate in India is 18.75 per cent. However, CRR is more actively used by the RBI to manage liquidity in the economy.

Qualitative Instruments

Qualitative instruments may not lead to changes in volume of money in the economy. These policy instruments are used for discriminating between different uses of credit. Thus, these instruments are used for regulating credit for specific purposes. Some of the instruments are as follows:

a) **Selective Credit Control:** Selective Credit Control relates to qualitative method of credit control by the central banks. The central bank can take steps to channelize credit to priority sectors. Similarly, it can impose restrictive measures on credit to certain sectors. In India, such controls have been used to check speculative hoarding of essential commodities such as food grains to check their price rise. When credit flow for purchasing and holding such stocks is restricted, traders increase the market supply of these commodities and their prices do not increase as much. Hence, selective credit controls help in moderation of inflation. You will find several examples of selective credit control in the Indian case. Credit extended to agricultural sector and small scale industries are instances of selective credit control.

b) **Margin Requirements:** The margin refers to that part of the loan amount which the bank does not finance. For example, if you approach a bank for financing a loan towards purchase of a house, the bank will not provide loan for the full amount – it may provide loan for about 80 to 85 per cent of the purchase value. An implication of the above is that 15 to 20 per cent of the purchase value should be financed from own funds.

   A higher margin on loan discourages borrowing. By changing the margin requirements, the central bank can encourage credit flow to certain sectors while restricting it to others. For instance, in order to encourage priority lending to certain sectors, the government may reduce margin requirements.

c) **Credit Rationing:** In order to restrict credit to certain sectors, the central bank may ration credit by putting certain limit on the amount the bank can lend to particular sector or section of society. Through rationing of credit, the central bank can perform the following tasks:

   1. It can decline loan to a particular commercial bank.
   2. It can ask commercial banks to extend certain percentage of credit to priority areas such as agriculture or small scale enterprises.

d) **Moral Suasion:** Central bank persuades other banks to comply with its policy stance through discussions, letters and speeches. This is known as moral suasion. Moral suasion can be employed for both qualitative and quantitative credit control. RBI can urge banks to keep a large fraction of their assets in the form of government securities. It can also discourage banks from borrowing excessively during inflationary periods. These measures help control money supply. Moral suasion is also used for controlling the distribution of bank credit.

e) **Direct Action:** Sometimes, the RBI can directly take action against a bank which is not following its directives and conforming to the broad monetary policy goals. For example,

the RBI may refuse rediscount facilities to such banks or it may charge a penal rate over and above the bank rate.

Central banks use a mix of different tools for monetary control. Bank rate, reserve requirements, open market operations and selective credit controls measures should be adopted simultaneously.

Reports of various Monetary Policy Committees:

The Monetary Policy Committee (MPC) is a committee constituted by the Central Government and led by the Governor of RBI. Monetary Policy Committee was formed with the mission of fixing the benchmark policy interest rate (repo rate) to restrain inflation within the particular target level. The RBI governor controls the monetary policy decisions with the support and advice of the internal team and the technical advisory committee.

Initially, the main decisions related to interest rates were taken by the Governor of RBI alone before the establishment of the committee. MPC was constituted under the Reserve Bank of India Act, 1934 as an initiative to bring more transparency and accountability in fixing the Monetary Policy of India. MPC conducts meetings at least 4 times a year and the monetary policy is published after every meeting with each member explaining his opinions.

Use of Monetary Policy

1) Monetary Policy is the process of regulating the supply of money in an economy by the monetary authority of the country.
2) The Monetary Policy, generally, adjusts the inflation rates or interest rates to sustain the price stability and to maintain the predictable exchange rates with foreign currencies.
3) The Reserve Bank of India is the central banking authority of India, which controls the monetary policy in conjunction with the central government's developmental agenda.
4) The Reserve Bank of India is authorized to make monetary policy under the Reserve Bank of India Act, 1934.
5) Monetary policy is either contractionary or expansionary and is often seen separate from the fiscal policy which deals with taxation, spending by government, and borrowing.
6) When the total money supply is increased rapidly than normal, it is called an expansionary policy, while a slower increase or even a decrease of the same refers to a contractionary policy.

Urijit Patel Committee first proposed the idea for the formation of a five-member Monetary Policy Committee. Later, the government proposed the setting up of a seven-member committee. MPC is assisted by the Monetary Policy Department (MPD) of the Reserve Bank in the formulation of the policy. The monetary Policy Committee came into force on 27th June 2016. The Financial Markets Operations Department (FMOD) operationalizes the monetary policy, mainly through day-to-day liquidity management operations.

Structure of the Monetary Policy Committee

1) Monetary Policy Committee (MPC) was constituted as per Section 45ZB under the RBI Act of 1934 by the Central Government. The first meeting of MPC was conducted on 3rd October 2016 in Mumbai.
2) The committee determines the policy interest rate required to achieve the inflation target.
3) The MPC is required to meet at least four times in a year.
4) The quorum for the meeting of the MPC is four members.
5) Each member of the MPC has one vote, and in the event of an equality of votes, the Governor has a second or casting vote.

6) Once every six months, the Reserve Bank is required to publish a document called the Monetary Policy Report to explain the sources of inflation and the forecasts of inflation for 6-18 months ahead.

MPC Meetings and their Recommendations

- Keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 5.15 per cent.
- Consequently, the reverse repo rate under the LAF remains unchanged at 4.90 per cent, and the marginal standing facility (MSF) rate and the Bank Rate at 5.40 per cent.
- The MPC also decided to continue with the accommodative stance as long as it is necessary to revive growth, while ensuring that inflation remains within the target.
- Reduce the policy repo rate under the liquidity adjustment facility (LAF) by 75 basis points to 4.40 per cent from 5.15 per cent with immediate effect;
- accordingly, the marginal standing facility (MSF) rate and the Bank Rate stand reduced to 4.65 per cent from 5.40 per cent.
- Further, consequent upon the widening of the LAF corridor as detailed in the accompanying Statement on Developmental and Regulatory Polices, the reverse repo rate under the LAF stands reduced by 90 basis points to 4.0 per cent.
- The MPC also decided to continue with the accommodative stance as long as it is necessary to revive growth and mitigate the impact of coronavirus (COVID-19) on the economy, while ensuring that inflation remains within the target.
- Reduce the policy repo rate under the liquidity adjustment facility (LAF) by 40 bps to 4.0 per cent from 4.40 per cent with immediate effect;
- Accordingly, the marginal standing facility (MSF) rate and the Bank Rate stand reduced to 4.25 per cent from 4.65 per cent; and the reverse repo rate under the LAF stands reduced to 3.35 per cent from 3.75 per cent.
- The MPC also decided to continue with the accommodative stance as long as it is necessary to revive growth and mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target.
- Keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 4.0 per cent.
- Consequently, the reverse repo rate under the LAF remains unchanged at 3.35 per cent and the marginal standing facility (MSF) rate and the Bank Rate at 4.25 per cent.
- The MPC also decided to continue with the accommodative stance as long as it is necessary to revive growth and mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.
- Since August 2020, there has been no changes in the policy rates though there was speculation in the month of December that the rates might change further.
- In April 2021, the committee felt that the demand side was still weak.
- There was volatility in fuel and food prices but inflation was still under control.

Summary

Monetary policy pertains to management of the supply of money and demand for credits. The objective of such controls is to achieve certain goals set for the economy. The objectives of monetary policy are attained through certain policy instruments. The policy instruments could be quantitative or qualitative in nature. The quantitative tools are repo rate, bank rate, open market operations, reserve requirements, etc. The qualitative tools are selective credit controls, moral

suasion, etc. In a liquidity trap like situation, however, the usual instruments do not work. Hence, central banks can adopt quantitative easing which injects liquidity in the banking system and lowers the lending rates of banks. And further, the MPC is an important agency to keep a close eye on the economy and adjust the monetary policy accordingly. In light of current pandemic situation in the country, it is very helpful as it has made efforts to ease the liquidity problems.

Keywords

1) Monetary Policy: That part of economic policy which regulates the level of money in the economy so as to achieve desired policy objectives like price stability, growth, equilibrium in balance of payments etc.
2) Bank Rate: That rate of interest at which the central bank makes advances to commercial banks or rediscounts their hills
3) Cash Reserve ratio: Ratio of cash reserve to bank's aggregate deposits.
4) Margin Requirement: A position of the value of the security charged to the bank, which is required to be paid by the borrower of his own resources.
5) Open Market Operations: Purchase or sale of eligible securities by the central bank in the open market.
6) Selective Credit Control: Such credit control that it regulates the distribution 01. direction of bank resources to particular sectors
7) Statutory Liquidity Ratio: The ratio of liquid assets to total demand and time liabilities determined statutorily.

Self Assessment

1. Which is the first central bank of the country?

A. Bank of England
B. Riksbank
C. Federal Bank of America
D. Reserve Bank of India

2. Reserve Bank of India was formed on the recommendation of which committee.

A. Hilton-Young Commission
B. Fowler committee
C. Campbell commission
D. MacDonnell commission

3. Which of them is not a traditional function of RBI?

A. Banker's bank
B. Lender of last resort
C. Issuing currency
D. Priority sector lending

4. Which of them is development and promotional function of RBI?

A. Banker's bank
B. Lender of last resort
C. Issuing currency
D. Development banks

5. Is foreign exchange control a function of the RBI?
A. True
B. False
6. The (fixed) interest rate at which the Reserve Bank provides overnight liquidity to banks against the collateral of government and other approved securities under the liquidity adjustment facility is known as …………
A. Reverse Repo
B. Repo
C. Bank Rate
D. Cash Reserve Rate

7. The …..consists of overnight as well as term repo auctions.
A. Reverse Repo
B. Repo
C. Bank Rate
D. LAF

8. What is the current Reverse Repo rate?
A. 4%
B. 3.35%
C. 3.75%
D. 4.25%

9. If there is inflation in the economy, the Repo rate will be
A. Increased
B. Decreased
C. Stagnant
D. None of the above

10. If there is inflation in the economy, the Reverse Repo rate will be
A. Increased
B. Decreased
C. Stagnant
D. None of the above

11. When did Monetary Policy Committee came into effect?
A. 2015
B. 2016
C. 2017
D. 2018

12. Who is the ex-officio chairman of Monetary Policy Committee?
A. Governor of RBI
B. Deputy Governor of RBI
C. Finance Minister of India
D. None of the above

13. How many meetings of Monetary Policy Committee have been completed?
A. 25
B. 26
C. 27
D. 28

14. Which committee recommended the formation of Monetary Policy Committee?
A. Urjit Patel Committee
B. Chakravarty Committee
C. Rangarajan Committee
D. Narsimhan Committee

15. Who is not a member of current Monetary Policy Committee?
A. Ashima Goyal
B. Prof. Jayanth Verma
C. Dr Mridul Saggar
D. Mr Vivek Kaul

Answers for Self Assessment

1.	B	2.	A	3.	D	4.	D	5.	A
6.	B	7.	D	8.	B	9.	A	10.	A
11.	B	12.	A	13.	D	14.	A	15.	A

Review Questions

1. Discuss the various functions of the Reserve Bank of India.
2. Explain the methods of credit control adopted by the Reserve Bank of India. Discuss their relative importance also.
3. Why is the Reserve Bank's monetary policy often characterized as the policy of controlled expansion? Critically evaluate the monetary policy of the Bank of India during the four decades of developmental planning.
4. What is a central bank? What makes a central bank different from commercial banks?
5. What do you mean by selective credit controls'? In what way they are superior to traditional instruments of credit control'?

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Unit 14: Structural Reforms of the Indian Economy

Objectives
Introduction
14.1 Key Features of Economic Reforms
14.2 Liberalization, Privatization and Globalization
14.3 Appraisal of Economic Reform Programme
Summary
Keywords
Self Assessment
Answers for Self Assessment
Review Questions
Further Reading

Objectives

- know the rationale behind economic reforms introduced in 1991;
- state the key elements of the economic reform process viz. liberalisation, privatisation and globalisation
- develop a clear understanding about the concepts of liberalisation, globalisation and privatization.

Introduction

After attainment of independence, India adopted the regime of economic planning with a glorious vision of a resurgent India. It aimed to marching firmly on the path of progress while ensuring an equitable distribution of the nation's wealth. Policies relating to licensing focussed on public sector, putting infant industry argument for imposing trade barriers, import-substitution policies, etc. This gamut of policies led to over-protection, inefficient resource utilisation, high revenue deficits, mismanagement of firms and economy, poor technological development and shortage of foreign exchange.

The resultant stress and pressures compelled the government to revisit the policy framework. The outcome came to be a set of changes in economic policies, which in a broad sense came to be identified as economic reforms. The principal aim of economic reforms was to enter an era of globalisation which meant a) free flow of goods and services, b) free flow of technology, c) free flow of capital, and d) free movement of human beings, especially labour from one country to another. Economic reforms, therefore, required integrating the Indian economy with world economy and the emphasis in economic reforms shifted to export-led growth strategy from import substitution strategy.

Economic Reforms: Rationale

During the four decades of development planning, the Indian economy used the public sector as the engine of growth. As a result, areas of operation of the public and private sector were demarcated in the Industrial Policy of 1956, and accordingly the industries were classified into those in which the public sector alone could undertake investment and those in which private sector was allowed. At the initial stage of Indian development, such a classification was very useful and the public sector undertook investment in capital goods sector and infrastructure industries. At that time, the private sector neither possessed adequate resources to undertake such investment nor did it have technical and managerial competence to invest in these areas. But, over the years, the private sector had accumulated huge funds for which it was not able to find adequate avenues of

investment. It was, therefore, suggested that there is absolutely no logic in restricting investment by the private sector in capital goods sector and infrastructure. This required dereservation of the areas hitherto reserved for the public sector. Thus, it required the enunciation of new policies for the purpose. These policies are referred to as liberalization, i.e., removal of restrictions on the private sector.

Secondly, under the Monopolies and Restrictive Trade Practices (MRTP) Act the Government had prohibited big business to undertake lumpy investment. A business house with assets worth Rs. 100 crore had to seek clearance from the MRTP Commission to start a new undertaking or to make substantial expansion of an existing undertaking. It was felt that MRTP restriction was unjustified because it prevented big business houses to enter into areas requiring heavy investment. The restriction of Rs. 100 crore was considered irrational by international standards. The government was frequently urged to remove this restriction. This is also a part of the process of liberalization.

Thirdly, it was argued that while the government prevented private sector monopoly, it permitted public sector monopoly in a number of important areas. Such a situation, required a fundamental change in policy because monopoly, whether in the public sector or in the private sector, was bad. Business and industrial lobbies were, therefore, arguing in favor of breaking public sector monopoly &d usher in an era of competition between the two sectors.

Fourthly, Indian industries had failed to imbibe modern technology and thus could not make rapid progress. The introduction of electronics and computers had ushered in a second industrial revolution in the world. It was, therefore, thought desirable that modernization be undertaken on a big scale with a hi-tech bias so that Indian industries could withstand the world competition.

Fifthly, the world was undergoing a process of integration, popularly referred to as globalization. Since new technology can be acquired only with the help of multinational corporations (MNCs), it was argued that restrictions on MNCs in terms, of 40% limit in equity participation be relaxed. Moreover, discriminatory treatment between MNCs and Indian firms be removed in terms of taxation, fiscal incentives, etc. Besides this, custom duties on exports and imports should be brought within the limits set by WTO, quantitative restrictions in the form of quotas be withdrawn and all subsidies on exports should be removed. In this way, India could usher an era of free trade in the world economy and face international competition.

Lastly, with the disintegration of the Soviet Union and East-European economies, the ideas of socialism had lost their appeal. Despite over 70 years of the socialists experiment, it failed to establish its supremacy. It also failed to raise the living standards of its people to the levels attained in capitalist economies. The adoption of market socialism in China and the merger of East Germany with West Germany further led to erosion of faith in the socialist system. Consequently, private sector had to be given a big role in the process of development as the profit motive could be the driving force for promoting investment, reducing cost of production and encouraging better technology. The key to economic efficiency was found in the private sector, which resulted in undermining the role of the public sector.

14.1 Key Features of Economic Reforms

The New Economic Policy (NEP) during the economic reforms process reflected neo-liberalism. The rationale of economic reforms was provided by the Industrial Policy announced by the Government in 1991. Its basic philosophy was summed up as 'continuity with change'. The key objectives can be summarized as:

a) to set free the Indian industrial economy from the hassles of unnecessary bureaucratic controls;

b) to introduce liberalization with a view to integrate the Indian economy with the world economy;

c) to remove restrictions on foreign direct investment (FDI) and also to lessen the restrictions of Monopolies and Restrictive Trade Practices (MRTP) Act for the domestic entrepreneur;

d) to dilute the monopoly of public sector enterprises and encourage competition from new private enterprises.

14.2 Liberalization, Privatization and Globalization

Liberalization:

The main aim of the liberalization was to dismantle the excessive regulatory framework that curtailed the freedom of enterprise. Over the years, the country had developed a system of "licence–permit raj'. The aim of the new economic policy was to save the entrepreneurs from unnecessary harassment of seeking permission from Babudom (the bureaucracy of the country) to start an undertaking.

Similarly, the big business houses were unable to start new enterprises because the Monopolies and Restrictive Trade Practices (MRTP) Act had prescribed a ceiling on asset ownership to the extent of Rs.100 crores. In case a business house had assets of more than Rs.100 crores, its application after scrutiny by the MRTP Commission was rejected. It was believed that on account of the rise in prices this limit had become outdated and needed a review. The second objection by the private sector lobby was that it prevented big industrial houses from investing in heavy industry and infrastructure, which required lump sum investment. In order that the big business could be enthused to enter the core sectors- heavy industry, infrastructure, petrochemicals, electronics etc., with big projects, the irrelevance of MRTP limit was recognized and hence 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 controls. In pursuance of this policy, the industrial policy of 1991 abolished industrial licensing for all projects except for a short set of 18 industries.

On April 14, 1993, the Cabinet Committee on Economic Affairs decided to remove three more items from the list of 18 industries reserved for compulsory licensing. The three items were; motor cars, white goods (which include refrigerators, washing machines, air-conditioners, microwave ovens etc) and raw hides and skins and patent leather. In the case of cars and white goods, the basic purpose of dereservation was to increase investment in industries in procuring cars and white goods so that the demand of the large middle class ranging from 250 to 300 million can be satisfied. These commodities are no longer considered as luxury goods, but are considered domestic gadgets to reduce the drudgery of domestic work. Liberalising the automotive sector led to better designs in two wheelers, unleashing the urge to compete in global markets and widening the domestic markets through better quality and standards. It should be of interest to know that a car has 20000 components— all manufactured in the small industry sector. The automotive component manufacturing in the small-scale sector suddenly started looking up and by the turn of the decade of reforms, the component manufacturing captured global markets. The government, in response to the market demand, liberalized the industries producing these goods and freed them from industrial licensing. Therefore, liberalization led to globalization.

To promote this objective, the Industrial Policy, 1991 announced a number of measures.

Of these, the major ones are:

1. Abolition of industrial licensing for all projects except for a small list of 18 industries. Later, on April 14, 1993, the Government decided to remove three more items from the list of reserved items for compulsory licensing.
2. The Government decided to abolish the ceiling on investment prescribed for big business houses so that they could undertake investment in big projects in the core sectors of the economy, i.e., heavy industry, infrastructure, petrochemicals, electronics, etc. The Government was of the view that in the context of liberlisation, the MRTP limit had become irrelevant and needed to be abolished forthwith.

The abolition of licensing for raw hides and skins and patent leather is motivated by the desire to push up exports. Since the potential for leather and good quality shoe exports is very large, the government decided to abolish licensing so that large-scale units could realize this potential by the use of modern technology.

The List of Industries in which Industrial Licensing is Compulsory

1. Coal and Lignite

2. Petroleum (other than crude) and its distillation products

3. Distillation and brewing of alcoholic drinks

4. Sugar

5. Animal fats and oils

6. Cigars and Cigarettes of tobacco and manufactured tobacco substitutes

7. Asbestos and asbestos-based products

8. Plywood, decorative veneers and other wood based products

9. Raw hides and skins, leather, chamois leather and patent leather

10. Tanned or dressed furskins

11. Paper and newsprint except bagasse-based units

12. Aerospace and defence equipment: all types

13. Industrial explosives

14. Hazardous chemicals

15. Drugs and pharmaceuticals

This long list also got truncated to six by 1999.

Globalization:

Globalization is primarily economic phenomenon, involving the increasing interaction, or integration, of national economic systems through the growth in international trade, investment and capital flows. A rapid increase in cross border social, cultural and technological exchange is part of the phenomenon of globalization.

Globalisation is the process of integrating the various economies of the world without creating any barriers in the flow of goods and services, technology, capital and labour/human capital. It involves four components:

a) Reduction of trade barriers in the form of custom duties/quotas/quantitative restrictions so as to permit free flow of goods and services in different economies.

b) Creation of an environment in which free flow of capital (or investment) can take place between nation states.

c) Creation of an enabling environment for the free flow of technology; and

d) From the viewpoint of developing countries, creation of an environment in which free flow of labour or human resources can take place among different countries of the world.

The advocates of globalisation, especially from the developed countries, limit the definition of globalisation to only three components viz., unhindered trade flows, capital flows and technology flows. They insist that the developing countries accept their definition of globalisation and conduct the debate on globalisation within the boundaries set by them. But several economists and social thinkers 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. But whether the debate about globalisation is carried out at the World Trade Organisation (WTO) or at any other international forum, there is a deliberate effort to black out 'labour flows' as an essential component of globalisation.

To pursue the objective of globalisation, the following measures have been taken:

(i) **Reduction of import duties:** There has been a considerable reduction in import duties. A reduction in import duties and the extension of MODVAT credit on taxes paid on inputs have been important measures for improving efficiency of the tax system. By 1990 import duties were 300 percent or more for several items and above 200 percent for many items. Peak rates were progressively reduced during the 1990s to reach 35 percent in 2001- 02. The median tariff rate was brought down to 25 percent in the 2003-04 budget. It is supposed to come down to 15 percent during 2004-05. Besides this, the government has attempted to rapidly dismantle quantitative restriction 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.

On the 8th February, 1997 the Commerce Ministry removed restrictions on 162 items for imports. Out of them, 69 items were moved from Special Import License (SIL) to free

imports. Among these items are escalators and moving walkways, cable cars, burglar and fire alarms, cameras of all kinds, auto-bank note dispensers, industrial vacuum cleaners and various kinds of glassware. Besides this, 93 items were moved from industrial to SIL (Special Import License) list which included photographic films rubber stoppers, aluminum beverage cans, car air-conditioning machines, cosmetic perfumes, picture tubes below 14 inches and a wide range of office machines. By April 2001, all the quantitative restrictions on imports were removed. Only a few items have been retained for exports through State Trading enterprises.

(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 upto 51 per cent foreign equity in high priority industries as per Industrial Policy of 1991. There shall be no bottlenecks of any kind in this process. Such clearances will be given if foreign equity covers the foreign exchange requirements for imported capital goods. On the 31st of December, 1996 the Cabinet gave its assent to a new list of industries whereby joint ventures with upto 74 per cent foreign equity would be cleared automatically. Among the industries listed for the purpose are: Mining services such as oil and gas fields services., basic metals and alloy industries, other manufacturing industries related to the items based on solar energy like solar cells, cookers, air and water heating systems, small hydro-equipment, construction and maintenance of roads, bridges, tunnels, pipelines, ropeways, ports, harbours and runways, electric generation and transmission and other infrastructure. The basic purpose of this move is to facilitate direct foreign investment in India.

b) To provide access to international markets, majority foreign equity holding up to 51% 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 Rs.1crore, 5% royalty for domestic sales and 8% for exports, subject to total payments of 8% sales over a 10year period from the date of the agreement or 7 years from commencement of production.

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

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

Privatization:

Privatisation is the process of transferring ownership and operation of the state-owned or public sector undertakings to the private sector. It can take three forms: (1) ownership measures; (2) organisational measures; and (3) operational measures

1 Ownership measures: Ownership of a public enterprise may be transferred to an individual, co-operative or corporate sector. It may take four forms:

(a) Total denationalization It implies 100 per cent transfer of ownership of a public enterprise to the private sector.

(b) Joint venture: It implies partial transfer of ownership of a public enterprise to private sector. It can take several forms. For instance, in 2002, the Government decided to transfer 25% shares of the Videsh Sanchar Nigam Ltd. (VSNL) to Tatas for a sum of Rs. 1,439 crore. Although Tatas became strategic partners, the Government still held the majority of shares and the control of VSNL. If the transfer of ownership is 51 per cent or more, then it shifts the - balance in favour of the private

sector, though the public sector still has a substantial stake. However, when the transfer of ownership is 74% or more, it gives a dominant position to the private sector which can to mould the character of the enterprise to its liking.

(c) Liquidation: It implies the sale of assets of a public enterprise to an individual or a corporation who may use them for any purpose it deems fit. The government may decide to liquidate some loss-making units.

(d) Workers ' co-operative: It is a special form of organization in which the ownership of a public enterprise may be transferred to the workers who form a co-operative to run an enterprise. To enable the workers to buy the shares of the enterprise, the government makes an appropriate provision for a bank-loan.

In such an enterprise, the workers became entitled two kinds of payments--(a)ownership dividend, and (b) wages for the services rendered. It is commonly believed that such ownership links the self-interest of the workers with the interests of the co-operative, and thus promotes efficiency and hard work among the workers so that the enterprise is able to realize more profits.

2) Organizational measures: These include several measures to limit the state control over thc public enterprises. These are:

(a) Holding Company: This structure provides a large degree of autonomy in decision-making for the day-to-day operations of a company, and the government limits its control to certain top level decision. A big company like Steel Authority of India (SAIL) or Indian Oil Corporation (IOC) may acquire a holding company status and, in the process, transfer a number of functions to its subsidiary units. This implies decentralised management.

(b) Leasing: In this arrangement, the government may permit the use of assets of a public enterprise by a private bidder for a specified period, say 5 years. The bidder enters into agreement with the government to pay a portion of the profits or a lump sum payment to the state. This is a kind of tenure ownership. 'The government remains the ultimate owner. ‘It may renew the lease or pass it on to some, other bidder depending upon the nature of the case.

3 Operational Measures: The efficiency of a public enterprise can be improved by a number of operational measures which include:

(a) grant of autonomy in decision-making;

(b) provision of incentives for workers and executives based on increase in productivity and profitability;

(c) freedom to acquire inputs from the market to reduce costs; and

(d) permission to a public enterprise to raise resources from the market to execute plans for modernization, diversification and expansion.

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 personal initiative is promoted.

The process of privatization can also be looked at from the point of view of the economy. The government has permitted the entry of the private sector into areas hitherto reserved for the public sector. But, effectively, since the announcement of Industrial Policy of 1991, the expansion of the public sector has literally come to a halt, while the expansion of the private sector has been gathering momentum. As a result of these changing trends in investment, over a period sf time, the share of the private sector in the economy is bound to increase. This phenomenon is referred to as privatisation of the economy.

Liberalisation, globalisation and privatisation are all means to achieve certain ends of the society, just as nationalization and regulatory frame work were intended to achieve certain goals. These are:

1. To achieve high rate of growth of national and per capita income;

2. To achieve full employment;

3. To achieve self-reliance;

4. To reduce the 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.

It is true that the operation of the public sector and the regulatory framework resulted in certain problems as we notice in detail in the next unit. Let us summarise these problems:

The excessive development of bureaucratic controls began to act as shackles on growth;

Overstaffing in public sector enterprises leads to an increase in cost of operation;

Low rate of return on investment in public sector;

Poor work ethic in public sector enterprises due to excessive job security and absence of incentives for better work;

Entry of public sector in areas of consumer goods for which it was never meant. Thus, this unnecessary expansion resulted in absence of focus and dilution in the quality of management; Some public sector enterprises were incurring losses year-after year and as such had become a burden on the ex-chequer, instead of being an asset to the nation.

The measures undertaken, whether under liberalisation, globalisation or, privatisation are all designed to rectify these problems so that working of the economy becomes more efficient and the rate of growth of the economy improves. Higher rate of growth, it is felt, is the remedy to improve the level of employment, to reduce poverty and to assure a better living standard to the people. It would, therefore be necessary to review economic reforms and study their impact during the last 5 years.

14.3 Appraisal of Economic Reform Programme

The advocates of the reforms process claim a number of achievements. Critics of reforms have drawn attention to various aspects of reform. However, there seems to be a general agreement among all political parties that the reforms are a historical necessity and it would not be possible to reverse the reform process. Even the left parties, after the collapse of Soviet Union, have veered round the view that reforms in the form of liberalisation, privatisation and globalisation will have to be undertaken. The focus of the debate is to ensure that whereas the reform process has helped to accelerate the growth, the benefits of the growth have not percolated to poor and weaker section of the society. It would, therefore, be desirable to consider the various arguments so as to understand the manner in which the measures taken need to be modified so as to achieve the objective of growth with the social justice. The Common Minimum Programme of the Congress-led united front in 2004-05 resolved to restrict privatization only to the loss making enterprises. There would be no further shedding of public sector enterprises that are being run profitably as was done by the National Democratic Alliance led by the Bharatiya Janata Party. Accordingly, the erstwhile independent Ministry of Disinvestment was converted to one department in the Ministry of Finance with the Union Government.

Higher Growth Rate achieved:

At $2.3 trillion, the Indian economy has grown nearly 9 times since 1991. In 1991, India's GDP stood at $266 billion. Agriculture, which accounted for nearly 30 per cent of the total GDP in 1991, now accounts for 17.4 per cent of the economy. The services sector contributes nearly 54 per cent to domestic GDP (from 39 per cent in 1991), while the industry sector's contribution to GDP stands at 29 per cent now against 30 in 1991. By 2007, the contribution of industry to GDP had risen to 34 per cent.

Control of Inflation:

The first four years of the 1990s registered double-digit inflation based on the wholesale price index, (WPI) with a 13.6 percent peak reached in 1992-93 (Table 19.2). High fiscal deficits, devaluation of the rupee, periodical increases in administered prices (especially in official procurement and issue prices of food grains), weather conditions, shortages of some commodities of common consumption, and large money creation due to acquisition of foreign currency reserves contributed, in varying degrees, and at different points of time, to the relatively higher inflation in the first half of the 1990s. However, from 1995-96 onwards, there has been a continuous deceleration and the average inflation for the period 1996-97 to 2000-01 is by far the lowest since the mid-1950s in terms of the 52-week average. The point-to-point average inflation rate for this period is the lowest since the early 1960s. The developments in the economy since 1996 have been conducive to a decline in the inflation rate. Importantly, on the demand side, there has been a noteworthy change in the source of reserve money creation. Over the decades, monetization of the budgetary deficits by the Reserve Bank of India (RBI) had accounted for a predominant part of

reserve money creation and the resultant growth, often excessive, in money supply. Since 1996-97, monetization of the budget deficit has declined sharply. During 1993 and 1994, primary liquidity was created mainly in the process of the RBI accumulating foreign currency reserves due to large inflows of foreign investment. With interest rates rising in most industrial economies, the impact of the Mexican crisis and the steps taken by the government of India to regulate the recourse of Indian industry to foreign financial markets, these inflows moderated. As government's borrowing is still very high and demand for commercial credit expected to pick-up pace, satisfying both the government and enterprise sectors will pose a difficult challenge to the monetary authorities who would like to restrain money growth to keep inflation under check. However, as pressures for reserve money creation come down, the RBI should be in a better position to balance the objectives of economic growth and moderation in prices. Satisfactory production of both food and non-food crops should keep the inflationary expectations subdued. Supply side management would be facilitated by large food stocks of 58 million tonnes as of January 2002 and high foreign exchange reserves of US$119bn as at the beginning of June 2004. And thereby In 2020, inflation rate for India was 6.2 %. Though India inflation rate fluctuated substantially in recent years, it tended to increase through 2001 - 2020 period ending at 6.2 % in 2020.

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 over-staffing of the public sector undertakings (PSUs) be reduced. The government has already taken steps in this direction by its voluntary retirement scheme (VRS). For this purpose, the government set up the National Renewal Fund (NRF) to provide compensation for voluntary retirement and also arrange for retraining and redeployment of workers. In 1990-91, there were 22.19 lakhs employees in PSUs of the Central Government, but in 1994-95 their number has been reduced to 20.41 lakhs. This implies that, as a result of the VRS, overstaffing has been reduced by 1.78 lakhs. In other words, employees strength has been reduced by 8 per cent. Under the NRF, an amount of Rs.542 crores was provided in 1993-94 and Rs. 261 crores in 1994-95. But a major complaint about the working of the NRF is that the entire amount has been used for providing compensation for voluntary retirement scheme (VRS) and the function of retraining and redeployment of workers has been neglected.

Whenever the government tried to privatize any public sector undertaking, the opposition to the movement was so strong that the government did not succeed. The government under the provisions of Sick Industrial Companies Act (SICA) referred the cases of sick PSUs to the Bureau for Industrial and Financial Reconstruction (BIFR). Upto 31st March 1995, 53 Central sick public sector undertakings were registered with BIFR. The BIFR has taken a decision for the revival of Indian Drugs and Pharmaceuticals Ltd., Orissa Drugs and Chemicals Ltd., Smith Stanistreet and Pharmaceuticals Ltd. Bharat Brakes and Valves Ltd., Biecco Lawrie Ltd, and Bengal Immunity Ltd. It has also decided to wind up some PSUs. They are: National Bicycles Corporation of India Ltd., Elgin Mill Co. Ltd., British Indian Corporation Ltd., Cawnpore Textile Ltd and Tannery and Footwear Corporation Ltd. The cases of other registered Public Sector Enterprises are under enquiry. But BIFR did not by and large result in any significant rehabilitation.

The government has also decided to sign Memoranda of Understanding (MOU's) with various public sector enterprises. The main goal of the MOU policy is to reduce the 'quality of control' and increase the 'quality of accountability.' The MOU's grant greater operational autonomy of PSU's to pursue their objectives. Out of the 99 PSE's which signed the MOU with their administrative ministries, 46 were rated as "Excellent" and 28 as "very good".

The net result of the efforts of the government was that the overall net profit earned by Central PSE's increased from Rs. 4,545 crores to Rs. 7, 217 crores which signifies as increase of 58.8 per cent over the previous year. This is a welcome development.

Another step taken by the government was disinvestment of PSUs. The government has been offering equity of 31selected public sector enterprises varying from 5 to 20% to mutual funds and financial institutions. This is only a token of privatisation and the government was able to raise Rs.9,793 crores during the four year period (1991-92 to 1994-95). However, the disinvestment programme did not pick up during 1995-96 and 1996-97, despite the fact that the government has been making a provision of Rs. 5,000 crores every year in the budget. Between 1991-92 and 2001-02, the disinvestment proceeds have totalled Rupees 253 billion out of a targeted Rupees 660 billion. During 2002-03, the government has listed strategic sales of oil refiners BPCL and HPCL, petrochemical firm IPCL, Shipping Corporation of India, carmaker Maruti and National Aluminum Company as a few of its big ticket sell-offs.

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 consequence, the trade gap has not been reduced. Globalisation has failed to reduce the trade gap, more so if we take into account total imports, including defense imports, as indicated by the RBI. This would seem to indicate the need to re-examine the open door policy of imports as also to boost exports.

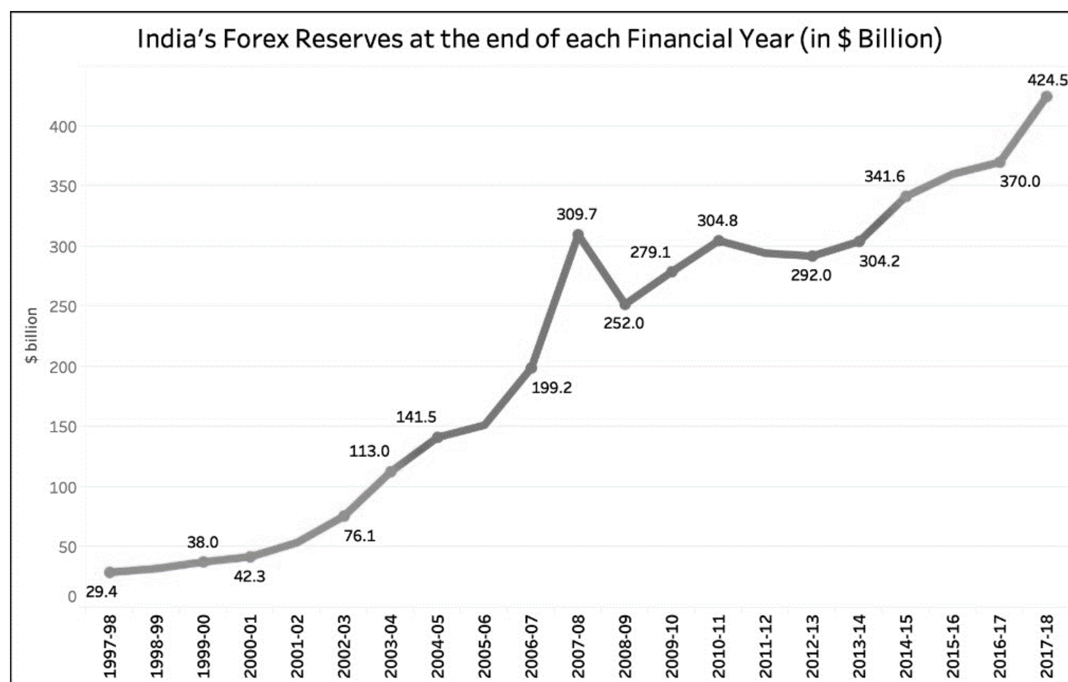
Reform process and fiscal deficit:

The appropriateness of deficits needs to be assessed in the context of the way resources are utilized and the overall macroeconomic environment and objectives. If the use of public resources is sufficiently productive, future income can be generated to cover the servicing costs of any debts incurred. Deficits can be more easily absorbed by countries with high rates of domestic private savings and well–developed capital markets.

More generally, a prudent fiscal policy can be defined as maintaining the public deficit at a level consistent with other macroeconomic objectives: controlling inflation, promoting private investment, and maintaining external credit worthiness.

Reform process and the exchange value of the Rupee: The Exchange Rate of the Rupee vis-à-vis US $ was Rs. 17.96 in 1990-91, but gradually the exchange rate has been appreciating and it became 1 US $ = Rs. 31.37 in 1994-95 and Rs. 35.6 per US $ in 1996-97. In other words, the international value of the Rupee has become nearly half its level of 1990-91. The fall in the value of the Rupee results in an increase in the burden of international debt. Secondly, it adversely effects the foreign investor's confidence in India. RBI has substantially reduced its intervention stabilization of the Rupee vs US$ and fully liberalized the current account operations. This led to strengthening of the Rupee against the US$ significantly during the years 2002-04. The reform process that led to strengthening of the Rupee is now threatening exporters with eroded cash margins.

Economic Reform and India's Foreign Exchange Reserves: The advocates of globalization claim that as a result of the reform process, foreign exchange reserves which had fallen to the level of US $ 2.2 billion started picking up and were around US $ 20.8 billion in 1994-95, but due to sharp deficit in balance of payments on current account in 1995-96, the reserves came down to US $ 17 billion. As at the beginning of June 2004, 45 the reserves moved to a new high of US$119bn due to liberalization of FDI and FIIs and free flow of NRI funds reflecting the investors' confidence in India.



As per these stats, the forex reserves at the end of 2017-18 were $424.5 billion. The following graph shows the changes in the foreign exchange reserves in India over years (at the end of each financial

year) since the time of NDA-1. Except for a sharp increase in 2007-08 followed by a decrease in 2008-09, the forex reserves have been steadily increasing over the years. Though the increase in forex reserves during respective governments may not indicate much, the reserves increased by 284% during NDA-1, 123% during UPA-1, 21% during UPA-2 and 40% during the current government (end of 2017-18).

To conclude it may be said that policies of liberalisation, globalisation and privatisation which symbolize economic reforms have concentrated on short term objectives such as controlling the deteriorating situation in balance of payments, building up foreign exchange reserves, reducing fiscal deficit, controlling inflation etc., However, the long-term goals of reducing poverty, achievement of full-employment, self-reliance and growth with social justice have remained unattended. The reform process has not yet succeeded in reducing the fiscal deficit. Naturally, there is a need to re-orient economic reforms so as to achieve long-term goals of the society, more especially full employment, self-reliance and growth with social justice

Summary

This unit has mainly dealt with the rationale, features and impact of economic reforms initiated in 1991. The rationale behind the reforms was primarily to introduce liberalisation, restrict bureaucratic controls, remove restrictions on direct foreign investment and to encourage privatisation with a view of decompressing the load on public sector enterprises. The key feature of economic reforms was the LPG model put forth by the Government with a view of integrating the Indian economy with the global economy. The impact of economic reforms has been positive in terms of GDP growth and also the increase in foreign investments has been satisfactory. However, the broader problems of our nation like poverty and unemployment have not got the stimulus from these reforms. The agricultural growth has also been neglected as seen by the near stagnation of capital investments in it by public sector. Economic reforms have also not been successful in accelerating industrial growth. Economic reforms have helped foreigners to penetrate in the Indian market to a greater extent than Indians to penetrate in foreign markets. The continuing balance of trade deficit is evidence to it. Economic reforms have also failed in reducing regional disparities. The gap between the bigger and smaller states is rising over-time.

Keywords

Fiscal Deficit: indicates the excess of total expenditure of the government over its total receipts (net of borrowing.

Globalisation: is the process of integrating an economy with the world economy. Globalisation involves unhindered trade flows, capital flows, technology flows and, in an ultimate sense, unhindered labour flows among nation states.

Liberalisation is the process of freeing the economy from the stranglehold of unnecessary bureaucratic and other restrictions imposed by the state.

Privatisation: is the process of transfer of ownership or operation of a state-owned unit (public sector enterprise) either wholly or partially.

Voluntary Retirement Scheme (VRS): gives the option to an employee to seek retirement voluntarily and avail of the compensatory benefits provided by the government.

Self Assessment

1. When was the industrial licensing abolished?

a) 1985

b) 1989

c) 1991

d) 1993

2. In which year were the quantitative restrictions completely removed from imports?

a) 1990
b) 1993
c) 2001
d) 2011

3. Globalization intends to ………the Indian economy with the world economy.
a) Integrate
b) Disintegrate
c) Develop
d) None of the above

4. Which world leader gave the acronym TINA for her decision on privatisation?
a) Indira Gandhi
b) Chandrika Kumaratunge
c) Margret Thatcher
d) Sirimavo Bandaranaike

5. Which of them is not a form of ownership measures for privatization?
a) Total decentralization
b) Liquidation
c) Joint venture
d) None of the above

6. Eliminating government set of barriers is known as
a) Liberalization
b) Privatisation
c) Globalisation
d) Free trade

7. What does LPG policy aim at?
a) Economic development
b) Economic stability
c) Higher efficiency
d) All the above

8. Under the industrial policy of 1991, the number of industries reserved for the public sector have been reduced from 17 to …..
a) 8
b) 6
c) 5
d) 3

9. The main aim of Securitization and Reconstruction of Financial Assets and Enforcement of Securities Interest Act 2002 was
a) Efficient and quick recovery of NPAs
b) Allows banks to auction the properties of borrowers when they fail to repay their debt.
c) Both the above

d) None of the above

10. What was the value of non-basmati rice exported by India in 2020?
a) US$ 2.43
b) US$ 2.33
c) US$ 1. 72
d) US$ 1. 50

11. Which committee recommended the reduction in the priority sector lending?
a) Narsimhan Committee
b) Rangranjan Committee
c) Tendulkar Committee
d) Jha Committee

12. Who maintains the funds allocated under RIDF?
a) SBI
b) RBI
c) NABARD
d) IFCI

13. How many activities are eligible under RIDF?
a) 3
b) 37
c) 47
d) 5

14. What is the target year for doubling the income of the farmers?
a) 2035
b) 2033
c) 2023
d) 2030

15. What is the limit of FDI for research and teaching activities?
a) 100%
b) 51%
c) 49%
d) 33%

Answers for Self Assessment

1.	C	2.	C	3.	A	4.	C	5.	D
6.	A	7.	D	8.	A	9.	C	10.	B
11.	A	12.	C	13.	B	14.	C	15.	C

Review Questions

1. What do you mean by liberalization? State the various factors that necessitated liberalization of the economy in India.

2. Discuss the various forms that privatization of public enterprises can take. Which one you consider as most effective?

3. What are the various steps taken by Government of India for globalization of the Indian economy? Do you have any suggestions to make in this direction?

4. State the major achievements of Indian economy as a result of the new economic policy of 1991. What lessons can be drawn from the experience of last ten years.

5. Make a critical assessment of the New Economic Policy keeping in view the long term objectives of economic development.

6. Discuss the impact of reform process on reducing poverty and growth of Employment.

7. List the four components of globalization of the Indian economy.
8. Do you think that India has benefited hm globalization? Give reason in support of your answer.

Further Reading

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