INDIAN ECONOMY
<table>
<thead>
<tr>
<th>Syllabi</th>
<th>Mapping in Book</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BLOCK II: PLANNING AND SECTORAL DEVELOPMENT</strong>&lt;br&gt;UNIT - III: Planning and Economic Development - Objectives of Planning - Types of Planning - Indian Planning Since Independence.</td>
<td>Unit 3: Planning and Economic Development (Pages 24-38)</td>
</tr>
<tr>
<td>UNIT - IV: Agriculture: Role and importance - Agriculture Development under Five Year Plans - Productivity - Measures.</td>
<td>Unit 4: Agriculture and Development (Pages 39-57)</td>
</tr>
<tr>
<td>UNIT - V: Industry: Role of Small - Medium and Cottage Industries - Industrial policy of 1948 - Problems - Industrial Development under Five Year Plans - LPG.</td>
<td>Unit 5: Industrial Policy and Development (Pages 58-80)</td>
</tr>
<tr>
<td>UNIT - VII: Capital Formation - Human and Physical - Savings and Investment.</td>
<td>Unit 7: Capital Formation (Pages 98-105)</td>
</tr>
<tr>
<td>UNIT - X: Infrastructure Development: Importance of Transport to Economic Growth - Transport Coordination - Road - Railways - Shipping and Civil Aviation.</td>
<td>Unit 10: Infrastructure Development (Pages 145-151)</td>
</tr>
<tr>
<td>UNIT - XI: Poverty in India: Meaning - Types - Poverty and Unemployment Eradication Programmes in India.</td>
<td>Unit 11: Poverty in India (Pages 152-165)</td>
</tr>
<tr>
<td>UNIT</td>
<td>Content</td>
</tr>
<tr>
<td>--------</td>
<td>-------------------------------------------------------------------------</td>
</tr>
<tr>
<td>XII</td>
<td>Foreign Trade: Meaning - India's Foreign Trade and Balance of Payments - EXIM Policy.</td>
</tr>
<tr>
<td>IV</td>
<td>Macro Policy: National Agricultural Policy - GATT, WTO and India's Foreign Trade.</td>
</tr>
</tbody>
</table>
INTRODUCTION

BLOCK I: BASICS OF INDIAN ECONOMY

UNIT 1 INDIAN ECONOMY: NATURE, SCOPE AND FEATURES OF LESS DEVELOPED AND DEVELOPING ECONOMIES 1-11

1.0 Introduction
1.1 Objectives
1.2 Nature and Scope of Indian Economy
   1.2.1 Key Reforms and Sustained GDP Growth
   1.2.2 Factors Restricting Economic Growth
   1.2.3 Features of Less Developed and Developing Economies: An Overview
1.3 Answers to Check Your Progress Questions
1.4 Summary
1.5 Key Words
1.6 Self Assessment Questions and Exercises
1.7 Further Readings

UNIT 2 ECONOMIC AND NON-ECONOMIC FACTORS IMPEDING ECONOMIC DEVELOPMENT 12-23

2.0 Introduction
2.1 Objectives
2.2 Factors Determining Economic Development
   2.2.1 Shifts of the Production Possibilities Curve
   2.2.2 No Shift of the Production Possibilities Curve
   2.2.3 Economic Growth vs Economic Development
   2.2.4 Understanding Development Economics
   2.2.5 Factors Affecting Economic Growth
   2.2.6 Three Factors of Economic Development
2.3 Answers to Check Your Progress Questions
2.4 Summary
2.5 Key Words
2.6 Self Assessment Questions and Exercises
2.7 Further Readings
BLOCK II: PLANNING AND SECTORAL DEVELOPMENT

UNIT 3  PLANNING AND ECONOMIC DEVELOPMENT  24-38

3.0 Introduction
3.1 Objectives
3.2 Objectives of Planning in India
3.2.1 Indian Planning Since Independence
3.3 Centralized Planning and Indicative Planning
3.3.1 Centralized Planning and the Role of Government
3.3.2 Indicative Planning
3.3.3 Components of or Approaches to Indicative Planning
3.3.4 Liberalizing the Indian Economy
3.4 Answers to Check Your Progress Questions
3.5 Summary
3.6 Key Words
3.7 Self Assessment Questions and Exercises
3.8 Further Readings

UNIT 4  AGRICULTURE AND DEVELOPMENT  39-57

4.0 Introduction
4.1 Objectives
4.2 Agriculture: Role and Importance
4.3 Agriculture Development under the Five-Year Plans
  4.3.1 Meaning of Land Reforms
  4.3.2 Objectives of Land Reforms
  4.3.3 Tenancy Reforms
  4.3.4 Land Reforms in India after Independence
  4.3.5 Shortcomings in the Past
  4.3.6 Causes for Slow Progress of Land Reforms
4.4 Productivity and Measures: An Overview
  4.4.1 Remedies for Low Productivity
  4.4.2 Rashtriya Krishi Vikas Yojana (RKVY)
  4.4.3 National Food Security Mission (NFSM)
  4.4.4 National Policy for Farmers, 2007
4.5 Answers to Check Your Progress Questions
4.6 Summary
4.7 Key Words
4.8 Self Assessment Questions and Exercises
4.9 Further Readings
UNIT 5  INDUSTRIAL POLICY AND DEVELOPMENT  58-80
5.0 Introduction  
5.1 Objectives  
5.2 Role of Small, Medium and Cottage Industries  
5.2.1 Meaning and Characteristics of Industrial Policies for MSME  
5.3 Problems and Issues Related to Industries  
5.4 Industrial Development Under the Five-Year Plans  
5.4.1 The Industrial Policy of 1948  
5.4.2 Categories of Industry  
5.4.3 Foreign Capital  
5.4.4 Mixed Economy  
5.4.5 Current Status of Industries in India  
5.4.6 Manufacturing Technology Status  
5.4.7 Development of Different Industries During Plan Period  
5.4.8 Five-Year Plans  
5.4.9 12th Five-Year Plan  
5.5 Answers to Check Your Progress Questions  
5.6 Summary  
5.7 Key Words  
5.8 Self Assessment Questions and Exercises  
5.9 Further Readings

BLOCK III: PLANNING AND INFRASTRUCTURAL DEVELOPMENT

UNIT 6  APPRAISAL OF PLANNING AND ECONOMIC REFORMS  81-97
6.0 Introduction  
6.1 Objectives  
6.2 Understanding India's Economic Reforms  
6.2.1 Structural Adjustment Programmes: Globalization, Liberalization and Privatization  
6.2.2 Liberalization: An Overview  
6.2.3 Privatization and its Forms and Objectives  
6.2.4 AIMS of Liberalization, Globalization and Privatization  
6.2.5 Review of Economic Reforms  
6.2.6 Globalization and its Objective  
6.2.7 Rationale behind Economic Reforms  
6.3 NITI Aayog  
6.4 Answers to Check Your Progress Questions  
6.5 Summary  
6.6 Key Words  
6.7 Self Assessment Questions and Exercises  
6.8 Further Readings
UNIT 7    CAPITAL FORMATION    98-105
7.0 Introduction
7.1 Objectives
7.2 Capital Formation Trends in India
   7.2.1 Human and Physical
   7.2.2 Capital Formation: Savings and Investment
7.3 Answers to Check Your Progress Questions
7.4 Summary
7.5 Key Words
7.6 Self Assessment Questions and Exercises
7.7 Further Readings

UNIT 8    NATIONAL INCOME    106-123
8.0 Introduction
8.1 Objectives
8.2 Concept, Methods and Recent Trends
   8.2.1 Personal Income and Disposable Personal Income
   8.2.2 Concept of National Product
   8.2.3 Importance of Gross National Product (GNP)
   8.2.4 Gross National Product (GNP), Net National Product (NNP), National Income (NI) and other Related
       Macroeconomic Concepts
   8.2.5 National Income and Product in a Simple Market Economy
   8.2.6 Recent Trends
8.3 Answers to Check Your Progress Questions
8.4 Summary
8.5 Key Words
8.6 Self Assessment Questions and Exercises
8.7 Further Readings

UNIT 9    HUMAN RESOURCES    124-144
9.0 Introduction
9.1 Objectives
9.2 Population Growth: An Overview
   9.2.1 Population and Demographic Projections
   9.2.2 Population Projection in India
   9.2.3 Demographic Scenario: Past, Present and Future Challenges
   9.2.4 Causes of Growing Population in India
   9.2.5 Demographic Factors
9.2.6 Educational Factors
9.2.7 Psychological and Religious Factors
9.2.8 Social Factors

9.3 Population Policy 2010
9.3.1 Population Policy in India
9.3.2 National Population Policy, 2000
9.3.3 National Socio-Democratic Goals 2010

9.4 Answers to Check Your Progress Questions
9.5 Summary
9.6 Key Words
9.7 Self Assessment Questions and Exercises
9.8 Further Readings

UNIT 10 INFRASTRUCTURE DEVELOPMENT

10.0 Introduction
10.1 Objectives
10.2 Transport Coordination
   10.2.1 Various Modes of Transport
   10.2.2 Importance of Transport to Economic Growth
10.3 Answers to Check Your Progress Questions
10.4 Summary
10.5 Key Words
10.6 Self Assessment Questions and Exercises
10.7 Further Readings

UNIT 11 POVERTY IN INDIA

11.0 Introduction
11.1 Objectives
11.2 Meaning and Types of Poverty in India
   11.2.1 Difference between Relative Poverty and Absolute Poverty
11.3 Poverty and Unemployment
   11.3.1 Unemployment and Underemployment: Definitions
   11.3.2 Measures for Unemployment in India
11.4 Poverty and Unemployment Eradication Programmes in India
11.5 Answers to Check Your Progress Questions
11.6 Summary
11.7 Key Words
11.8 Self Assessment Questions and Exercises
11.9 Further Readings
### UNIT 12 | FOREIGN TRADE

#### 12.0 Introduction

#### 12.1 Objectives

#### 12.2 India’s Foreign Trade: Meaning and Implications

- 12.2.1 Trade Philosophy
- 12.2.2 Framework of Trade
- 12.2.3 Structural Changes in India’s Foreign Trade Policy

#### 12.3 Balance of Payments

- 12.3.1 Features of the Balance of Payments
- 12.3.2 Current Scenario of India’s Balance of Payments
- 12.3.3 Significance of Balance of Payments
- 12.3.4 Accounting of Balance of Payments
- 12.3.5 Source of Compilation
- 12.3.6 Limitations in Compilation
- 12.3.7 Balance of Payments Data
- 12.3.8 Mechanism of Adjustment
- 12.3.9 Adjustment of Balance of Payments under the Gold Standard
- 12.3.10 Deficit Country and Surplus Country
- 12.3.11 Income Adjustment
- 12.3.12 Balance of Payments: A Measurement of Deficits
- 12.3.13 Role of Service in Balance of Payments
- 12.3.14 Non-Resident Inflows
- 12.3.15 Allocation (Or Cancellation) of Special Drawing Rights (SDRs)
- 12.3.16 Monetization /Demonetization of Gold
- 12.3.17 Unrequited Transfers
- 12.3.18 Double Entry System of Recording
- 12.3.19 Balance of Payments and International Economic Linkages

#### 12.4 Exim (Foreign Trade) Policy

- 12.4.1 AIMS and Objectives
- 12.4.2 Foreign Trade Policy (FTP) 2015-20
- 12.4.3 Major Changes in the Foreign Trade Policy, 2009-14
- 12.4.4 Highlights of the Foreign Trade Policy, 2009-14

#### 12.5 Answers to Check Your Progress Questions

#### 12.6 Summary

#### 12.7 Key Words

#### 12.8 Self Assessment Questions and Exercises

#### 12.9 Further Readings
UNIT 13  FINANCE COMMISSION

13.0 Introduction
13.1 Objectives
13.2 Evolution, Function, Principles and Centre State Relations
   13.2.1 Rationale
   13.2.2 Jurisdiction
   13.2.3 The Finance Commission and Tax Sharing
13.3 Recent Finance Commission
   13.3.1 Major Recommendations of FFC
13.4 Answers to Check Your Progress Questions
13.5 Summary
13.6 Key Words
13.7 Self Assessment Questions and Exercises
13.8 Further Readings

UNIT 14  MACRO POLICY: AN OVERVIEW

14.0 Introduction
14.1 Objectives
14.2 National Agricultural Policy
14.3 GATT
   14.3.1 Trade Negotiations Under GATT
   14.3.2 Non-Tariff Measures
14.4 WTO and India’s Foreign Trade
   14.4.1 Structure of WTO
   14.4.2 Scope of the WTO
   14.4.3 Basic Principles of General Agreement on Tariffs and Trade (GATT)/World Trade Organization (WTO)
   14.4.4 WTO Agreements and their Business Impact
   14.4.5 Intellectual Property Rights
   14.4.6 WTO and Dispute Settlement
   14.4.7 The Process: Stages in WTO Dispute Settlement Procedure
   14.4.8 Anti-Dumping Provisions
   14.4.9 Statistics of Anti-Dumping
14.5 Answers to Check Your Progress Questions
14.6 Summary
14.7 Key Words
14.8 Self Assessment Questions and Exercises
14.9 Further Readings
The colonial rule in India brought a significant change in the taxation and agricultural policies. This led to commercialization of agriculture with a focus on trade. It had many adverse effects on the Indian economy, such as decreased production of food crops, mass impoverishment and destitution of farmers and many famines. Thus, Indian economic policy after independence was influenced by the colonial experience. Independent India's domestic policy tended towards protectionism, concentrating on import substitution industrialization, economic interventionism, a large public sector, business regulation and central planning. India initiated the principles of free market in 1991. This move was aimed at enabling the country to survive in internationally competitive markets and attract foreign investment. Today, the economy of India is the tenth largest in the world by nominal GDP and the fourth largest by purchasing power parity (PPP). Our country is the second largest economy in the world, in terms of both population and arable land. It has 16 per cent of the world’s population and 12 per cent of the world’s arable land. According to the International Monetary Fund’s (IMF) World Economic Outlook, the per capita GDP in India in 2017 was US$ 7,170, placing India at 126th rank in the per capita GDP world rankings. Despite its rapid economic growth, India continues to face massive income inequalities, high unemployment and malnutrition.

This book, *Indian Economy*, is written with the distance learning student in mind. It is presented in a user-friendly format using a clear, lucid language. Each unit contains an Introduction and a list of Objectives to prepare the student for what to expect in the text. At the end of each unit are a Summary and a list of Key Words, to aid in recollection of concepts learnt. All units contain Self-Assessment Questions and Exercises, and strategically placed Check Your Progress questions so the student can keep track of what has been discussed.
Indian economy has managed to sustain high GDP growth despite financial crises it faced on regular intervals. The economic reforms which kicked off in 1991 led it to emerge as the third largest economy in Asia after China and Japan. It has now emerged as a major exporter of software services and software workers. As a result service sector now contributes immensely to India’s GDP. However, more than half of the population is dependent on agriculture for its livelihood.

Some of key reforms it initiated include increasingly liberal foreign investment and exchange regimes, industrial decontrol, reductions in tariffs and trade barriers, opening and modernization of the financial sector, significant adjustments in government monetary and fiscal policies and more safeguards for intellectual property rights.

Post-liberalization and economic reform and since 1997, Indian economy has recorded an average growth rate of more than 7 per cent in the decade, reducing poverty by about 10 percentage points. India achieved GDP growth of
9.6 per cent, 9.0 per cent and 6.6 per cent in 2006, 2007 and 2008 respectively, significantly expanding manufactures through late 2008. Even in the wake of the financial crisis and resulting global economic slowdown, the country’s foreign portfolio and direct investment inflows have significantly increased in recent years.

However, there are factors which are restricting India’s economy. Inadequate infrastructure, a cumbersome bureaucracy, corruption, labour market rigidities, regulatory control, high fiscal deficits, etc. are some of the stumbling blocks impeding the potential growth of economy.

Despite big stride on account of economic reforms and the resultant benefits, Indian economy still suffers from some features of under-developed and developing economies. Dependence on agriculture, low per capita income, high population, unemployment, under-utilization of resources, use of poor technology, unequal distribution of wealth, etc. are some of hindrances it needs to address to transform into a developed economy.

The unit aims to analyse the impact of reforms in India economy, its scope, nature and essential features of less developed and developing economies.

1.1 OBJECTIVES

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

- Know India’s Position in the World’s Economy
- Understand the Nature & Scope of Indian Economy
- Enumerate India’s Market-oriented Reforms
- Explain Various Factors Restricting India’s Economic Growth
- Understand the Outlook for Trade Liberalization in India
- Understand Features of Under-developed and Developed Economies

1.2 NATURE AND SCOPE OF INDIAN ECONOMY

India has got along with the global financial crisis in a remarkable manner. Regardless of the recession in 2008-2009, the government is expecting the annual Gross Domestic Product (GDP) growth to return to approximately 9 per cent. The total population of the country stands at more than 1.1 billion, which is further growing at 1.55 per cent a year. With total GDP in 2008 of approximately $1.21 trillion ($1,210 billion), India occupies a position as the world’s twelfth largest economy—and the third largest in Asia following Japan and China. Services, industry and agriculture account for 54 per cent, 29 per cent, and 18 per cent of GDP, respectively. India is making the most of its large numbers of qualified people who are skilled in the English language in order to become a major exporter of software services and software workers. However, more than half of the population is
dependent on agriculture for its livelihood. Approximately 700 million Indians live on $2 per day or less, while a large and growing middle class comprising more than 50 million Indians are dependent on disposable income ranging from ₹2,00,000 to 1,000,000 per year ($4,166–$20,833) for their livelihood. However, it is estimated that the middle class will grow ten-fold by 2025.

1.2.1 Key Reforms and Sustained GDP Growth

Even though in a slow and halting manner, India continues to move ahead with market-oriented economic reforms that started in 1991. Some of the reforms are:

- Increasingly liberal foreign investment and exchange regimes
- Industrial decontrol
- Reductions in tariffs and other trade barriers
- Opening and modernization of the financial sector
- Significant adjustments in government monetary and fiscal policies
- More safeguards for intellectual property rights

Since 1997, the country’s economy has recorded an average growth rate of more than 7 per cent in the decade, reducing poverty by about 10 percentage points. India achieved GDP growth of 9.6 per cent, 9.0 per cent and 6.6 per cent in 2006, 2007 and 2008 respectively, significantly expanding manufactures through late 2008. Initially, growth for the fiscal year ending 31 March 2009 was expected to be between 8.5 and 9.0 per cent. However, several economists had revised it to 7.0 per cent or less because of the financial crisis and resulting global economic slowdown. Foreign portfolio and direct investment inflows have significantly increased in recent years, which contributed to the $283.5 billion in foreign exchange reserves by December 2009. Moreover, government receipts from the 34-day 3G auction were $14.6 billion.

1.2.2 Factors Restricting Economic Growth

Nevertheless, economic growth is restricted to a number of factors such as:

- Inadequate infrastructure
- A cumbersome bureaucracy
- Corruption
- Labour market rigidities
- Regulatory and foreign investment controls
- The ‘reservation’ of key products for small-scale industries
- High fiscal deficits

The outlook for further trade liberalization is obscure. An important World Trade Organization (WTO) Doha Ministerial Declaration in July 2008 was not...
successful because of disparities between the US and India (as well as China) over market access. In 2002, the Government of India abolished quotas on 1,420 consumer imports and has incrementally reduced non-agricultural customs duties in recent successive budgets. However, the tax structure is complex, with compounding effects of various taxes. In 2008, US-India bilateral merchandize trade surpassed approximately $50 billion. Principal US exports include:

- Diagnostic or lab reagents
- Aircraft and parts
- Advanced machinery
- Cotton
- Fertilizers
- Ferrous waste/scrap metal
- Computer hardware

Major US imports from India include:

- Textiles and ready-made garments
- Internet-enabled services
- Agricultural and related products
- Gems and jewellery
- Leather products
- Chemicals

The software sector is growing rapidly, thereby increasing service exports and modernizing the economy of the country. Software exports exceeded $35 billion in FY 2009, while business process outsourcing (BPO) revenues reached $14.8 billion in 2009. Personal computer penetration is 14 per 1,000 persons, while the number of cell phone users is increase to around 300 million by 2010. With a 13 per cent share, the US is the largest investment partner of India. India’s total inflow of US direct investment was estimated at more than $16 billion through 2008. The Foreign Investment Promotion Board considers the proposals for direct foreign investment and the government generally grants approval. Investments involving up to 100 per cent foreign equity are generally granted automatic approval, depending on the kind of industry. However, foreign investment is particularly sought after in power generation, telecommunications, ports, roads, petroleum exploration/processing and mining. By the end of 2008, India’s external debt was nearly $230 billion, up from $126 billion in 2005-2006. In 2006-2007, foreign assistance was approximately $3 billion, in which about $126 million was provided
by the US for development assistance. Moreover, the World Bank is planning to increase assistance by two-fold to India, which would be almost $3 billion a year, with focus on infrastructure, education, health and rural livelihoods. Table 1.1 shows the key indicators of the Indian economy.

### Table 1.1 Key Indicators

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<td>GDP (current market prices)</td>
<td>crore</td>
<td>4294706</td>
<td>4987090</td>
<td>5630063</td>
<td>6457352</td>
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<td>Growth Rate</td>
<td>%</td>
<td>16.7</td>
<td>16.1</td>
<td>12.9</td>
<td>14.7</td>
<td>18.8</td>
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<td>GDP (factor cost, 2004–05 prices)</td>
<td>crore</td>
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<td>3896636</td>
<td>4158676</td>
<td>4507637</td>
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<td>Growth Rate</td>
<td>%</td>
<td>5.6</td>
<td>5.3</td>
<td>6.7</td>
<td>6.4</td>
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<td>6.8</td>
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<td>Savings Rate</td>
<td>% of GDP</td>
<td>34.6</td>
<td>36.8</td>
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<td>Per Capita Net National Income</td>
<td>Rs</td>
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<td>35825</td>
<td>40775</td>
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<td>2 Production</td>
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<td>Foodgrains</td>
<td>Mt tonnes</td>
<td>217.3</td>
<td>230.8</td>
<td>234.5</td>
<td>218.1</td>
<td>244.6</td>
<td>260.4</td>
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<td>Index of Industrial Production</td>
<td>% growth</td>
<td>12.9</td>
<td>15.5</td>
<td>2.5</td>
<td>5.3</td>
<td>6.7</td>
<td>3.8</td>
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<td>Electricity Generation</td>
<td>% growth</td>
<td>7.3</td>
<td>6.3</td>
<td>2.7</td>
<td>6.1</td>
<td>5.5</td>
<td>5.4</td>
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<td>3 Prices</td>
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<td>Inflation (M1) (52-week average)</td>
<td>% change</td>
<td>6.6</td>
<td>4.7</td>
<td>6.1</td>
<td>3.6</td>
<td>3.6</td>
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<td>Inflation (H1) (average)</td>
<td>% change</td>
<td>6.7</td>
<td>6.3</td>
<td>9.1</td>
<td>12.4</td>
<td>12.4</td>
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<td>4 External Sector</td>
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<td>Export Growth (US$)</td>
<td>% change</td>
<td>22.6</td>
<td>28.0</td>
<td>13.0</td>
<td>3.5</td>
<td>45.5</td>
<td>25.5</td>
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<td>Import Growth (US$)</td>
<td>% change</td>
<td>24.5</td>
<td>35.5</td>
<td>20.7</td>
<td>5.0</td>
<td>28.2</td>
<td>28.4</td>
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<td>Current Account Balance (CAD)</td>
<td>% change</td>
<td>0.0</td>
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<td>0.0</td>
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<td>Foreign Exchange Reserves USD</td>
<td>686.2</td>
<td>730.7</td>
<td>252.0</td>
<td>276.1</td>
<td>304.5</td>
<td>320.1</td>
<td>320.1</td>
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<td>Average Exchange Rate US$</td>
<td>62.55</td>
<td>63.39</td>
<td>45.88</td>
<td>47.44</td>
<td>45.96</td>
<td>47.34</td>
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<td>5 Money and Credit</td>
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<tr>
<td>Broad Money (M1 annual)</td>
<td>% change</td>
<td>21.2</td>
<td>21.4</td>
<td>18.3</td>
<td>16.8</td>
<td>16.0</td>
<td>14.4</td>
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<td>Scheduled Commercial Bank Credit (growth)</td>
<td>% change</td>
<td>28.1</td>
<td>22.3</td>
<td>17.3</td>
<td>16.9</td>
<td>21.5</td>
<td>16.4</td>
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<td>6 Fiscal Indicators (Centre)</td>
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<tr>
<td>Gross Fiscal Deficit</td>
<td>% of GDP</td>
<td>3.3</td>
<td>2.5</td>
<td>6.0</td>
<td>6.5</td>
<td>4.8</td>
<td>4.9</td>
</tr>
<tr>
<td>Revenue Deficit</td>
<td>% of GDP</td>
<td>1.9</td>
<td>1.1</td>
<td>4.3</td>
<td>5.2</td>
<td>3.2</td>
<td>3.4</td>
</tr>
<tr>
<td>Primary Deficit</td>
<td>% of GDP</td>
<td>0.2</td>
<td>0.5</td>
<td>0.3</td>
<td>0.7</td>
<td>0.9</td>
<td>0.9</td>
</tr>
<tr>
<td>7 Population</td>
<td>Million</td>
<td>1122</td>
<td>1138</td>
<td>1154</td>
<td>1170</td>
<td>1210</td>
<td>1250</td>
</tr>
</tbody>
</table>

**Notes:**
- GDP figures for 2011-12 are advance estimates; *Quick estimates; # Provisional estimates, na not available.
- Second advance estimates.
- The Index of Industrial Production has been revised since 2005-06 on base (2004-05=100).
- April-December 2011.
- April 2011 to January 2012.
- CAB to GDP ratio for 2011-12 is for the period April-September 2011.
- At end January, 2012.
- Average exchange rate for 2011-12 (April 2011-February 2012).
- Provisional (upto January 27, 2012).
- Fiscal indicators for 2010-11 are based on the provisional actuals.
- Budget estimates.
- Census 2011.
1.2.3 Features of Less Developed and Developing Economies: An Overview

The Indian economy is integrated with certain important features, some of which are as follows:

1. **Low per capita income:** One of the most important characteristic features of an under-developed economy is low per capita income. As opposed to the advanced countries, India’s per capita income stands at a very low level. For example, the per capita income of India was 460 dollar in 2000, whereas the per capita income of the USA in the same year was eighty-three times than India. Currently, there is a gradual increase in this trend of difference of per capita income between under-developed and advanced countries. In India, not only the per capita income is low, but the income is also distributed unequally, which creates a wide gap between the rich and the poor. Due to this unequal distribution of income and wealth, the problem of poverty in the country is increasingly becoming more critical and acute, and is strongly acting as a hurdle in the process of economic growth.

2. **Heavy population pressure:** Population explosion is another massive hurdle to the economic growth of India. This is clearly seen from the total population of India, which was 102.67 crore in 2001 census. After China, India occupies the second position as the most populated country in the world. As in 2011, India has a total population of around 121 crore. All the under-developed countries are characterized by high birth rate, which stimulates the growth of population. The fast rate of population growth further propels a higher rate of economic growth in order to maintain the same standard of living. However, the failure to maintain the standard of living makes the under-developed countries poorer, thereby affecting the economic growth.

3. **Pre-dominance of agriculture:** Occupational distribution of population in India evidently shows the backwardness of the economy. One of the basic features of an under-developed economy is the major contribution of the agriculture in the national income and the involvement of a very high proportion of working population in agriculture.

4. **Unemployment:** Another significant feature of the under-developed economy of India is unemployment and under-employment. In under-developed countries, it is not possible to provide productive employment to the entire population. Due to lack of job opportunities in the market, talented people are forced to take up agriculture as their occupation. This leads to the deficiency of capital formation.

5. **Low rate of capital formation:** The rate of capital formation is also low in an under-developed economy like India. Capital formation mainly depends on the ability and willingness of the people to save. Since the per capita income is low and there is unequal distribution of income and wealth, the
ability of the people to save is very low in underdeveloped countries. Therefore, this results in very low capital formation.

6. Poor technology: Technology plays a vital role in the growth of the economy of a nation. However, Indian economy greatly suffers from technological backwardness. In India, the techniques applied in agricultural industries and other economic fields are primitive in nature.

7. Backward institutional and social framework: The social and institutional framework in India is highly under-developed, which significantly affects the economy of under-developed countries like India. This acts as a strong obstacle to any change in the form of production. Moreover, religious institutions, such as caste system and joint family universal marriage, greatly affect the economic life of the people.

8. Under-utilization of resources: India, being a poor and an under-developed country, is not able to effectively utilize its resources. This makes the people remain economically backwards for the lack of utilization of resources of the country.

9. Price instability: Price instability is also significantly responsible for an under-developed economy like India. In almost all the under-developed countries like India, there is continuous price instability. Shortage of essential commodities and gap between consumption and productions increase the price steadily. The rising trend of price further acts as a deterrent for maintaining the standard of living of the common people.

Check Your Progress
1. List some of the key reforms started in 1991.
2. Enumerate various US imports from India.
3. List the sectors in which foreign investment is generally sought.
4. Explain the role of the Foreign Investment Promotion Board.
5. Elucidate some of the features of under-developed economy.
6. Explain how low per capita income and unequal distribution of wealth are adding to the problem of poverty in India.

1.3 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Some of the key reforms started in 1991 are:
   - Increasingly liberal foreign investment and exchange regimes
   - Industrial decontrol
   - Reductions in tariffs and other trade barriers
- Opening and modernization of the financial sector
- Significant adjustments in government monetary and fiscal policies
- More safeguards for intellectual property rights

2. Major US imports from India include:
- Textiles and ready-made garments
- Internet-enabled services
- Agricultural and related products
- Gems and jewellery
- Leather products
- Chemicals

3. Foreign investment is particularly sought after in power generation, telecommunications, ports, roads, petroleum exploration/processing and mining.

4. The Foreign Investment Promotion Board considers the proposals for direct foreign investment and the government generally grants approval. Investments involving up to 100 per cent foreign equity are generally granted automatic approval, depending on the kind of industry.

5. Some of the features of under-developed economy are:
   i. One of the most important characteristic features of an under-developed economy is low per capita income. As opposed to the advanced countries, India’s per capita income stands at a very low level.
   ii. Population explosion is another massive hurdle to the economic growth of India. This is clearly seen from the total population of India, which was 102.67 crore in 2001 census. After China, India occupies the second position as the most populated country in the world.
   iii. One of the basic features of an under-developed economy is the major contribution of the agriculture in the national income and the involvement of a very high proportion of working population in agriculture.
   iv. Another significant feature of the under-developed economy of India is unemployment and under-employment. In under-developed countries, it is not possible to provide productive employment to the entire population.
   v. The social and institutional framework in India is highly under-developed, which significantly affects the economy of under-developed countries like India.
   vi. India, being a poor and an under-developed country, is not able to utilize its resources. This makes the people remain economically backwards for the lack of utilization of resources of the country.
6. As opposed to the advanced countries, India's per capita income stands at a very low level. For example, the per capita income of India was 460 dollar in 2000, whereas the per capita income of the USA in the same year was eighty-three times than India. In India, not only the per capita income is low, but the income is also distributed unequally, which creates a wide gap between the rich and the poor. Due to this unequal distribution of income and wealth, the problem of poverty in the country is increasingly becoming more critical and acute, and is strongly acting as a hurdle in the process of economic growth.

1.4 SUMMARY

- The economic reforms which kicked off in 1991 led it to emerge as the third largest economy in Asia after China and Japan. It has now emerged as a major exporter of software services and software workers.
- Services, industry and agriculture account for 54 per cent, 29 per cent, and 18 per cent of GDP, respectively. India is making the most of its large numbers of qualified people who are skilled in the English language in order to become a major exporter of software services and software workers.
- Foreign portfolio and direct investment inflows have significantly increased in recent years, which contributed to the $283.5 billion in foreign exchange reserves by December 2009.
- In 2002, the Government of India abolished quotas on 1,420 consumer imports and has incrementally reduced non-agricultural customs duties in recent successive budgets.
- The software sector is growing rapidly, thereby increasing service exports and modernizing the economy of the country. Software exports exceeded $35 billion in FY 2009, while business process outsourcing (BPO) revenues reached $14.8 billion in 2009.
- The Foreign Investment Promotion Board considers the proposals for direct foreign investment and the government generally grants approval. Investments involving up to 100 per cent foreign equity are generally granted automatic approval, depending on the kind of industry.
- In India, not only the per capita income is low, but the income is also distributed unequally, which creates a wide gap between the rich and the poor.
- Population explosion is another massive hurdle to the economic growth of India. This is clearly seen from the total population of India, which was 102.67 crore in 2001 census.
- One of the basic features of an under-developed economy is the major contribution of the agriculture in the national income and the involvement of a very high proportion of working population in agriculture.
The social and institutional framework in India is highly under-developed, which significantly affects the economy of under-developed countries like India.

India, being a poor and an under-developed country, is not able to effectively utilize its resources. This makes the people remain economically backwards for the lack of utilization of resources of the country.

Dependence on agriculture, low per capita income, high population, unemployment, under-utilization of resources, use of poor technology, unequal distribution of wealth, etc. are some of hindrances it needs to address to transform into a developed economy.

1.5 KEY WORDS

- **Under-developed economy**: This refers to that state of an economy where levels of living of masses are extremely low due to very low levels of per capita income resulting from low levels of productivity and high growth rates of population.
- **Developing economy**: This refers to one where people have a lower standard of living and less developed industries than other countries like US.
- **Developed economy**: A developed economy is one with sustained economic growth, security, high per capita income, etc.
- **The World Trade Organization (WTO)**: This is the global international organization dealing with the rules of trade between nations. It centres on the WTO agreements, negotiated and signed by the world’s trading nations and ratified in their parliaments.
- **The Foreign Investment Promotion Board (FIPB)**: This was a national agency of Government of India, with the remit to consider and recommend foreign direct investment which does not come under the automatic route. Now, the Government of India has abolished FIPB.

1.6 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. Discuss the impact of economic reforms started in 1991 on India’s economic growth.

2. How does the service sector contribute substantially to India’s GDP?
3. Discuss in brief the US-India bilateral merchandize trade post-liberalisation and economic reform.

4. Elucidate the role of software sector in modernizing Indian economy.

5. Analyse the causes that impede India to effectively utilize its resources.

6. Discuss the main hurdle in the process of India’s economic growth.

7. Write a brief note on “price instability” in the under-developed countries like India.

**Long-Answer Questions**

1. Analyse in detail some of the factors which are responsible for India’s slow economic growth.

2. To what extent India’s high population contributes to its relatively slow economic growth. Discuss this with relevant examples.

3. Discuss the role of institutional and social framework in developing the economy of countries like India.

1.7 **FURTHER READINGS**


UNIT 2  ECONOMIC AND NON-ECONOMIC FACTORS IMPEDING ECONOMIC DEVELOPMENT

Structure

2.0 Introduction
2.1 Objectives
2.2 Factors Determining Economic Development
  2.2.1 Shifts of the Production Possibilities Curve
  2.2.2 No Shift of the Production Possibilities Curve
  2.2.3 Economic Growth vs Economic Development
  2.2.4 Understanding Development Economics
  2.2.5 Factors Affecting Economic Growth
  2.2.6 Three Factors of Economic Development
2.3 Answers to Check Your Progress Questions
2.4 Summary
2.5 Key Words
2.6 Self Assessment Questions and Exercises
2.7 Further Readings

2.0 INTRODUCTION

The issues related to economic growth and economic development have attracted the attention of many and led to a vast and diverse portfolio of research and economic thoughts. Studies relating to those issues have been fairly extensive. There was a time when the development of a country was measured only in terms of gross domestic product and per capita income became an important indicator. However, a new concept of development has evolved in the history of economic study.

There has been a notable shift in the focus of development planning from mere economic growth to enhancement of human well-being. As the basic objective of development of a nation is to improve the welfare of the people, every nation strives hard not only to increase her wealth and productive resources but also to ensure better standard of living of the citizens by providing them with adequate food, clothing, house, medical facilities, education, etc.

There has been accelerated improvement in various indicators of human development. In India, there have been major strides in the development of health and education sectors. The economy got diversified significantly and the share of the service sector in employment and incomes improved considerably. There is a broad consensus on the overall improvement of the economy and quality of life,
but, there are significant differing perceptions about the distributional impacts of these gains.

Thus we see that economic growth take place upon a gradual increase all elements that make up the GDP such as consumption, investment, government expenditures and net exports. On the other hand, economic development involves an increase in the human capital index, a notable decline in social and economic inequality; and structural changes that contribute to a basic improvement in the overall quality of a nation’s population. Then there is the concept of sustainable development which carries along with it economic growth, environmental protection, and social equity which can be achieved by gradually changing the ways in which we develop and use technologies.

The present unit reflects upon various studies on similarities and differences between economic growth and economic development which give proper perspective of the issues under current study.

2.1 OBJECTIVES

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

- Understand the role of economic factor in the development
- Provide an insight into concepts of economic growth and economic development
- Analyse the production possibilities curve
- Explain the role of development economics
- Understand the main factors of economic development
- Enumerate sustainable development

2.2 FACTORS DETERMINING ECONOMIC DEVELOPMENT

In common parlance, there is no difference between economic growth and economic development, and these terms are used interchangeably. But in economics, we differentiate between these two seemingly identical concepts. Economic growth is a narrower concept between the two, and denotes an increase in a country’s Gross Domestic Product (GDP).

There are two common measures of the rate of economic growth. The first is the rate of growth of a nation’s real Gross Domestic Product, which tells how rapidly the economy’s total real output of goods and services is increasing. The second is the rate of growth of per capita real Gross Domestic Product, which is a better measure of the rate of increase of a country’s standard of living.
To represent the process of economic growth, it is convenient to use the production possibilities curve which shows all efficient combinations of output that an economy can produce. For example, let us suppose that a given society produces only two goods: food and tractors. If this society has at its disposal a fixed amount of resources and if technology is fixed, the production possibilities curve shows the maximum quantity of food that can be produced, given each amount of tractors produced.

The production possibilities curve shows all efficient combinations of output that an economy can produce.

2.2.1 Shifts of the Production Possibilities Curve

A country’s potential output increases when its production possibilities curve shifts outward. This happens because the society can produce (and consume) more of one good without having to produce (and consume) less of the other good. Thus, its productive capacity must be greater. If the production possibilities curve shifts outward, if the economy is efficient, and if population remains constant, the per capita GDP increases, they facilitate economic growth. Moreover, the faster the production possibilities curve shifts outward, the greater the rate of economic growth.

2.2.2 No Shift of the Production Possibilities Curve

A general decline in the unemployment or inefficiency levels will cause economic growth even if the country’s production possibilities curve does not shift outward. If a country allows some of its resources to be unemployed or underutilized because of an insufficiency of intended spending, this will cause the economy to operate at a point inside the production possibilities curve rather than on the curve.

Now it is clear that economic growth has a connotation of quantitative expansions in economic variables, specially aggregate and per capita. National income is measured by Gross National Product (GNP) and Net National Product (NNP). Therefore, the analysis of economic growth is concerned mainly with measuring of growth in economic variables, and identifying their interrelationships such as between the national income growth rate and the speed of capital formation.

2.2.3 Economic Growth vs Economic Development

Economic development is usually concerned not only with quantitative expansions, but also with changes in non-quantitative factors such as institutions, organizations and culture under which economies operate. If we follow this usage, economic growth is considered to be a quantitative aspect of economic development. The similarities and differences between economic growth and economic development can be gauged in the following ways:

1. In broad terms, one would say that economic development involves a steady and ongoing activity that leads to a better standard of living and improvement in the financial health of a particular sector or area of a country’s economy.
Economic development also signifies the quantitative and qualitative changes that take place in the economy. Such actions can include the development of human capital, critical infrastructure, regional competitiveness, environmental sustainability, social inclusion, health, safety, literacy, and other initiatives.

2. The concept of economic growth is much narrower than the concept of economic development. As we have already studied, it implies an increase in a nation’s real level of national output which could have been brought about by an expansion in the resource quality or quantity, technological improvements, etc. The principle of economic development is normative. This means that it finds application in the context of people’s sense of morality (right or wrong, good or bad). Michael Todaro, an American economist and a pioneer in the field of development economics, equates economic development with increasing standards of living, better self-esteem, and other privileges such as freedom from any and all kinds of exploitation, etc.

3. Economic growth will take place upon a gradual increase in any or all elements that make up the GDP such as consumption, investment, government expenditures and net exports. Economic development, on the other hand, involves an increase in the Human Capital Index; a notable decline in social and economic inequality; and structural changes that contribute to a basic improvement in the overall quality of a nation’s population. One must note that one of the most precise ways of determining economic development is by using the Human Development Index. This Index includes the literacy rates and the growth of more employment opportunities in various sectors such as education, healthcare, employment and the protection of the environment. This denotes that all citizens of the nation experience a growth in their per capita income. Other measures of economic development include gender related index, human poverty index, infant mortality rate and literacy rate.

4. Economic growth pertains to an increase in the output of an economy, whereas economic development pertains to structural changes that take place in an economy.

5. Economic growth is a quantitative measurement relating to an increase in Gross Domestic Product and shown production-possibility frontier. Economic development is measured in qualitative terms. In other words, whereas economic growth is associated with bringing about quantitative changes in an economy, economic development is associated with bringing about qualitative changes in an economy.

6. In order to measure progress in developed nations, economic growth is a much preferred indicator. Most nations make use of it for measuring fiscal growth since growth is a pre-condition for development. Developing countries make use of economic development in order to measure progress and quality of life.
7. There are several unrecorded economic activities that characterize an economy. These activities go unaccounted for in the measurement of economic growth. These activities are related to an informal or a black economy. Economic development helps in alleviating people from low standards of living with the provision of proper employment and suitable shelter.

8. A major problem with economic growth is not taking into account the exhaustion of natural resources that may cause pollution, congestion and the occurrence of various diseases. The concept of development, on the other hand, is synonymous with sustainability referring to meeting present needs without having to compromise the future needs.

9. Economic growth is an important, but not an adequate condition of economic development.

2.2.4 Understanding Development Economics

We can say that development economics is that branch of economics that deals with the economic aspects of development process in nations with low incomes. Development economics focusses not only on methods that encourage economic growth and structural changes, but also on the improvement of the potential for the mass of the population.

Generally, economic development is concerned with growth in such metrics as literacy rates, life expectancy and poverty rates. GDP disregards other important components such as leisure time, environmental quality, freedom or social justice. There are other ways of measuring the economic well-being of a nation. In a fundamental sense, the economic development of a nation appertains to its human development, which includes, among other things, health and education. These determinants are, nevertheless, closely linked to economic growth in such a way that economic development and economic growth are complementary concepts.

2.2.5 Factors Affecting Economic Growth

Broadly speaking, there are chiefly three important areas encompassed by the policies of economic development:

1. Governmental measures undertaken to fulfil broad economic objectives like price stability, high employment and a sustained rate of growth. These efforts allow for changes in economic and fiscal policies, the governance and administration of financial institutions, trade and tax policies, etc.

2. Procedures that offer infrastructure and services such as highways, parks, affordable housing, crime prevention and school education.

3. Job creation and retention through specific efforts in business finance, marketing, neighbourhood development, workforce development, small business development, business retention and expansion, technology transfer and real estate development.
2.2.6 Three Factors of Economic Development

Following are the three factors of economic development:

1. Process

The term ‘process’ refers to the operation of certain forces, which bring about changes in certain variables. Various types of economic changes take place during the development process. The most important of these changes can be broadly divided into two categories: (i) changes in the supply of fundamental factors, and (ii) changes in the structure of demand for the products. Changes in factor supply take place due to discovery of additional resources, capital accumulation, population growth, adoption of better techniques of production and institutional changes. Again, changes in the structure of demand for products take place due to changes in the size and composition of the people, changes in the level and distribution of income, changes in tastes, etc. Hence, economic development may be defined as development of factor supplies and product demand. These changes bring about an increase in real national income over a long period.

2. Real national income

Other things being equal, there is a positive correlation between the real national income and economic development. Higher real national income of a country is considered an index of higher economic development and vice versa. In brief, we can say that the real national income is the measuring rod of economic development. Though it may be an imperfect method for measuring economic development and growth, it is, however, used for global development comparisons. Here emphasis is on the word ‘real’ which signifies that purchasing power of national income should be taken into account for quantifying development. In other words, the money national income is to be discounted by the price index, as shown by the formula below:

\[ Y_r = Y_m \times P \]

Where, \( Y_r = \) Real national income  
\( Y_m = \) Money national income  
\( P = \) Price index

The formula signifies that development can be meaningful if an increase in money national income is not accompanied by increase in price level. It implies that price stability is an essential condition for promoting development. Thus, economic development signifies higher real national income.

3. Long period

Economic development refers to an upward trend in real national output over a long period. Although the upward trend means that each successive cyclical peak is generally at a higher level of real national output than the preceding peak respectively, it is the increase in real national income between cycles rather than
the increase within a cycle that denotes development. Since a major business cycle covers normally six to thirteen years, long-term process here refers to a sustained increase in real output over a period of at least twenty-five years.

Thus, economic development is a process consisting of a long chain of interconnected changes in fundamental factor supplies and in the structure of demand for products leading to a rise in real national income over a long period.

According to Bernard Okun and Richard W. Richardson, ‘Economic development may be defined as a sustained secular improvement in well-being, which may be considered to be reflected in an increasing flow of goods and services.’

A close examination of this definition reveals that it is more or less similar to the concept of development as explained by G.M. Meier. According to this definition, economic development implies continuous secular increase in national output for promoting material welfare of the society. It stresses on three important aspects of development: (i) Economic development is a dynamic and long-term phenomenon; (ii) It implies improvement in material welfare and (iii) National output is the measuring rod of material welfare. This definition is not regarded satisfactory as it fails to explain the role of social, political, institutional and international forces. These forces are considered vital as they shape and direct the global economic development. So this definition leaves much to be desired.

Some economists like professors Baran, Buchanan and Ellis interpret economic development as something more than merely an increase in total output; they believe that it should also denote a rising standard of living. They define economic development as a process whereby the total per capita income or output of a country increases over the long period.

According to Prof. Baran, ‘Let economic growth or development be defined as an increase over time in per capita output of material goods.’ In the words of professors Buchanan and Ellis, ‘Development means developing the real income potentialities of the underdeveloped areas by using investment to effect those changes and to argument those productive resources which promise to raise real income per person.’

In broad terms, it implies that in a developing economy:

\[ \Delta Y_r > \Delta P \]

resulting in an increase in per capita income

Here, \( D \) refers to increase

\( Y_r \) = to real national income and

\( P \) = to size of population

In other words, for economic development, the rate of increase of real income should be higher than the rate of population growth. Prof. Colin Clark defines economic development from the angle of economic welfare. In his own words, ‘Economic progress can be defined simply as an improvement in economic welfare.’ Economic welfare, following Pigou, can be defined as an abundance of
all those goods and services which are customarily exchanged for money. Leisure is an element in economic welfare and more precisely: ‘We can define economic progress as the attaining of an increasing output of those goods and services for a minimum expenditure of effort, and of other scarce resources, both natural and artificial.’

According to the United Nations Expert Committee, ‘Development concerns not only man’s material needs but also the improvement of the social condition of his life. Development is, therefore, not only economic growth, but growth plus change—social, cultural and institutional as well as economic.’ This definition encompasses economic as well as non-economic aspects of development. The definition stresses on the expansion of development variables, and also improving the quality of those variables. The central point of this definition is that quantitative and qualitative changes in development variables are considered essential ingredients of economic development.

A very comprehensive definition of economic development that can be given is, ‘Economic development is a continuous process which has to be extended over a long period of time so as to break the vicious circle of poverty and lead a country to a stage of self-sustaining growth or to self-generating economy.’ Thus we can conclude that economic development is a process which results in a rise in real national income, and the net national product must have a sustained increase, i.e., it must be over a long period of time.

Joseph A. Schumpeter, however, uses the term ‘economic development’ as a spontaneous and discontinuous change in the stationary state which disturbs the existing equilibrium of the state. The term ‘economic growth’ is used to denote a steady and gradual change in the long run which comes through a general increase in the rate of saving and population in a dynamic economy.

Prof. Kindleberger has given the differences between growth and development as; ‘Growth may well imply not only more output and also more inputs and more efficiency, i.e., an increase in output per unit of input.’ Development goes beyond these to imply changes in the structure of outputs and in the allocation of inputs by sectors. By analogy with a human, growth is increase in height and weight, while development is the change in his functional capacity.

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

According to British economist and world scholar A. Maddison, ‘The raising of income levels is generally called economic growth in rich countries and in poor ones it is called economic development’. Ursula Hicks, the Irish economist has also expressed almost the same views and said that while economic development refers to the problems of underdeveloped countries, economic growth refers to...
Economic and Non-Economic Factors Impeding Economic Development

NOTES

Self-Instructional Material

those of advanced countries. She points out that the problems of underdeveloped countries are concerned with development of unused resources, even though their uses are well-known; while those of advanced countries are related to growth, most of their resources being already known and developed to a considerable extent.

Economic development implies a qualitative change in what or how goods and services are produced through shifts in resource use, production methods, workforce skills, technology, information, or financial arrangements. A regional economy can grow without changing if it simply produces more of the same good and services in the same manner. For example, an increase in the population of an area will mean more income and more demand-driven growth. Development implies something more. Development and growth complement each other in the long run; although in the short run development will tie up resources that could otherwise feed more immediate economic growth.

Check Your Progress

1. What does the production possibilities curve indicate?
2. What do you understand by economic growth?
3. Enumerate the meaning of economic development?
4. Explain the similarities and differences between economic growth and economic development.
5. What do you mean by Real National Income?
6. What are three important aspects of development as enunciated by G.M. Meier?

2.3 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. The production possibilities curve shows all efficient combinations of output that an economy can produce. A country’s potential output increases when its production possibilities curve shifts outward. This happens because the society can produce (and consume) more of one good without having to produce (and consume) less of the other good. Thus, its productive capacity must be greater.

2. Economic growth will take place upon a gradual increase in any or all elements that make up the GDP such as consumption, investment, government expenditures and net exports. Economic development, on the other hand, involves an increase in the human capital index; a notable decline in social and economic inequality; and structural changes that contribute to a basic improvement in the overall quality of a nation’s population.
3. Economic development is usually concerned not only with quantitative expansions, but also with changes in non-quantitative factors such as institutions, organizations and culture under which economies operate. Economic development helps in alleviating people from low standards of living with the provision of proper employment and suitable shelter. A very comprehensive definition of economic development that can be given is, "economic development is a continuous process which has to be extended over a long period of time so as to break the vicious circle of poverty and lead a country to a stage of self-sustaining growth or to self-generating economy."

4. The similarities and differences between economic growth and economic development can be gauged in numerous ways. In broad terms, one would say that economic development involves a steady and ongoing activity that leads to a better standard of living and improvement in the financial health of a particular sector or area of a country's economy. The concept of economic growth is much narrower than the concept of economic development. As we have already studied, it implies an increase in a nation's real level of national output which could have been brought about by an expansion in the resource quality or quantity, technological improvements, etc. Economic growth pertains to an increase in the output of an economy, whereas economic development pertains to structural changes that take place in an economy.

5. The real national income is the measuring rod of economic development. Though it may be an imperfect method for measuring economic development and growth, it is, however, used for global development comparisons.

6. According to G. M. Meier, economic development implies continuous secular increase in national output for promoting material welfare of the society. It stresses on three important aspects of development: (i) economic development is a dynamic and long-term phenomenon; (ii) it implies improvement in material welfare and (iii) national output is the measuring rod of material welfare.

2.4 SUMMARY

- In common parlance, there is no difference between economic growth and economic development, and these terms are used interchangeably. But in economics, we differentiate between these two seemingly identical concepts.
- To represent the process of economic growth, it is convenient to use the production possibilities curve which shows all efficient combinations of output that an economy can produce.
- A general decline in the unemployment or inefficiency levels will cause economic growth even if the country's production possibilities curve does not shift outward.
In broad terms, one would say that economic development involves a steady and ongoing activity that leads to a better standard of living and improvement in the financial health of a particular sector or area of a country’s economy.

Economic growth pertains to an increase in the output of an economy, whereas economic development pertains to structural changes that take place in an economy.

A major problem with economic growth is not taking into account the exhaustion of natural resources that may cause pollution, congestion and the occurrence of various diseases.

Broadly speaking, there are chiefly three important areas encompassed by the policies of economic development.

During the 1970s, the concept of economic development was redefined to include not just the rise in GDP but growth with wealth redistribution for the welfare of the masses. Dudley Seers, the British economist who specialized in development economics, suggested that along with rise in per capita GDP, the poverty, unemployment and inequality should decline when a country moves towards economic development.

Amartya Sen has propounded that development should include experiences of capabilities of the masses, freedom from poverty, freedom from premature mortality, famine and better nutrition and access to health care. He further argues that freedom is both an end and a means. Economic growth is important but cannot be a goal in itself.

Economic development is a process which results in a rise in real national income, and the net national product must have a sustained increase, i.e., it must be over a long period of time.

Economic development implies a qualitative change in what or how goods and services are produced through shifts in resource use, production methods, workforce skills, technology, information, or financial arrangements. A regional economy can grow without changing if it simply produces more of the same good and services in the same manner.

2.5 KEY WORDS

- **Gross National Product (GNP):** This is a broad measure of a nation’s total economic activity and is the value of all finished goods and services produced in a country in one year by its nationals.

- **Net National Product (NNP):** This refers to gross national product (GNP), i.e. the total market value of all final goods and services produced by the factors of production of a country or other polity during a given time period, minus depreciation.
• **Human Development Index**: This Index includes the literacy rates and the growth of more employment opportunities in various sectors such as education, healthcare, employment and the protection of the environment.

• **Real National Income**: Real national income of a country is considered an index of higher economic development and vice versa. In brief, we can say that the real national income is the measuring rod of economic development.

• **Capability Approach**: Coined by Nobel Laureate Amartya Sen in 1985, capability approach emphasizes that economic growth is not an end in itself. Economic growth must enhance the lives people lead and the freedom they enjoy.

### 2.6 SELF ASSESSMENT QUESTIONS AND EXERCISES

**Short-Answer Questions**

1. Enumerate the role of Development Economics.
2. What are the factors that affect the economic growth?
3. Write a brief analysis on economists’ interpretations of development.

**Long-Answer Questions**

1. Analyse the use of the production possibilities curve in the economic process.
2. Discuss in detail on economic growth vs. economic development.
3. “Economic growth is an important, but not an adequate condition of economic development.” Explain this statement with ample references.

### 2.7 FURTHER READINGS


UNIT 3 PLANNING AND ECONOMIC DEVELOPMENT

Structure

3.0 Introduction
3.1 Objectives
3.2 Objectives of Planning in India
  3.2.1 Indian Planning Since Independence
3.3 Centralized Planning and Indicative Planning
  3.3.1 Centralized Planning and the Role of Government
  3.3.2 Indicative Planning
  3.3.3 Components of or Approaches to Indicative Planning
  3.3.4 Liberalizing the Indian Economy
3.4 Answers to Check Your Progress Questions
3.5 Summary
3.6 Key Words
3.7 Self Assessment Questions and Exercises
3.8 Further Readings

3.0 INTRODUCTION

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

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

3.1 OBJECTIVES

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

- Summarize the objectives of the centralized approach to planning
- Describe the transformation of the centralized planning process into the indicative planning process in the country
- Explain the relationship between planning and markets for growth and decentralized planning
- List the reasons for India abandoning its centralized planning approach and liberalising its economy
- Evaluate the objectives, allocations and targets of the current Five-Year Plan

3.2 OBJECTIVES OF PLANNING IN INDIA

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

India’s first Prime Minister, Jawaharlal Nehru set up the Planning Commission with a Government of India resolution in March 1950. The Planning Commission was set up in pursuance of the declared objectives of the government, which was to promote a swift rise in the standard of living of the people by the efficient utilization of the resources of the country, increasing production and offering opportunities to all for employment in the service of the community. Nehru was the first chairman of the Planning Commission, a post that has been held by all subsequent prime ministers. The charge of the Planning Commission was to assess all the resources of the country, increasing deficient resources, formulating plans for the most effective and balanced utilization of resources and determining priorities.
Table 3.2 provides you a summary of various five-year plans formulated and executed by the Planning Commission of India since its inception. In this section, we will focus on the 'Nehru-Mahalanobis' model in the five-year plans which represented the Nehruvian view of state-led development. The state-led development model was largely followed by India till 1991 when the balance of payment crisis and subsequent pressure from monetary agencies like the World Bank and the International Monetary Fund (IMF) made India liberalise its economy and abandon the centralized planning approach.

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

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

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

(iii) Since the productivity of labour was higher in manufacturing than in agriculture, a push towards industrialisation promised to bring about a swift increase in national and per capita income.
The rapid development of the industrial sector was not only critical for the development of agriculture, but also for the growth of all other sectors of the Indian economy.

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

3.2.1 Indian Planning Since Independence

A summary of various Five-Year Plans in India has been provided in Table 3.1 below:

<table>
<thead>
<tr>
<th>Plan</th>
<th>Aspects</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Plan (1951–56)</td>
<td>• Based on the Harrod-Domar Model</td>
</tr>
<tr>
<td></td>
<td>• Community Development Program launched in 1952</td>
</tr>
<tr>
<td></td>
<td>• Focus on agriculture, price stability, power and transport</td>
</tr>
<tr>
<td></td>
<td>• Plan successful primarily because of good harvests in the final two years of the plan</td>
</tr>
<tr>
<td>Second Plan (1956–61)</td>
<td>• Also called the Nehru-Mahalanobis Plan</td>
</tr>
<tr>
<td></td>
<td>• Focus on rapid industrialization</td>
</tr>
<tr>
<td></td>
<td>• Advocated huge imports through foreign loans</td>
</tr>
<tr>
<td></td>
<td>• Shifted the emphasis from agriculture to industry</td>
</tr>
<tr>
<td></td>
<td>• Target Growth: 4.5 per cent</td>
</tr>
<tr>
<td></td>
<td>• Actual Growth: 4.27 per cent</td>
</tr>
<tr>
<td></td>
<td>• During this plan, prices increased by 30 per cent, against a decline of 13 per cent during the first plan</td>
</tr>
</tbody>
</table>
At the inception of the third plan, it was felt that the Indian economy had entered a take-off stage. Therefore, the aim of the plan was to make India a ‘self-reliant’ and ‘self-generating’ economy.

Based on the experience of first two plans, agriculture was given top priority to support the exports and industry.

Target Growth: 5.6 per cent
Actual Growth: 2.84 per cent

The plan failed completely in reaching targets due to the Chinese aggression of 1962, the India-Pakistan War of 1965 and a severe drought in 1965–66.

The prevailing crisis in agriculture and a serious food shortage necessitated the emphasis on agriculture during the Annual Plans.

During these plans a completely new agricultural strategy was implemented. It involved the widespread distribution of high-yielding varieties of seeds, extensive use of fertilizers, exploitation of irrigation potential and soil conservation.

During the Annual Plans, the economy absorbed the shocks that were generated during the third plan. The annual plans paved the path for the planned growth ahead.

The main emphasis of the plan was on growth rate of agriculture to enable other sectors to move forward.

Target Growth: 5.7 per cent
Actual Growth: 3.30 per cent

The first two years of the plan saw record production. The last three years did not measure up due to poor monsoons.

The influx of Bangladeshi refugees before and after the 1971 Indo-Pak war was an important issue.

D.D. Dhar prepared and launched the fifth five year plan.

The two main objectives of the plan was ‘Garibi Hatao’ (removal of poverty) and the ‘attainment of self-reliance’

The promotion of a high rate of growth, better distribution of income and significant growth in the domestic rate of savings were seen as key instruments of the plan.

The fifth plan was abruptly terminated in 1978 instead of 1979 after the Janata Party came to power at the centre.

Target Growth: 4.4 per cent
Actual Growth: 3.8 per cent

There were two sixth five-year plans. The Janata party government put forward a plan for 1978–1983. However, the government lasted for only two years. The Congress returned to power in 1980 and launched a different plan.

The Congress government’s sixth five-year-plan focused on increasing national income, modernising technology, ensuring the continuous decrease in poverty and unemployment, population control through family planning, etc.

Target Growth: 5.2 per cent
Actual Growth: 5.66 per cent

The focus of the seventh plan was the rapid growth in food-grains production, increased employment opportunities and productivity within the framework of the basic tenants of planning.

The plan was very successful with the economy recording 6 per cent growth rate against the targeted 5 per cent.

Target Growth: 5.0 per cent
Actual Growth: 6.01 per cent
## Eighth Plan (1992–97)
- The eighth plan was postponed by two years because of political uncertainty at the Centre.
- The Balance of Payment crisis and inflation during 1990–91 were the key issues during the launch of the plan.
- The plan undertook drastic ‘structural adjustment policies’ enforced by the World Bank to combat the bad economic situation and to undertake an annual average growth of 5.6 per cent.
- Some of the main economic outcomes during the eighth plan period were rapid economic growth, high growth of the agriculture and allied sector, the manufacturing sector, the growth in exports and imports, improvements in trade and the current account deficit.

- The ninth five year plan was developed in the context of four important dimensions. The dimensions were quality of life, generation of productive employment, regional balance and self-reliance.
- Target Growth: 6.5 per cent.
- Actual Growth: 5.35 per cent.

## Tenth Plan (2002–2007)
- The objective of the tenth five year plan was to achieve 8 per cent GDP growth rate, reduce poverty by five percentage points by 2007, provide universal primary healthcare by 2007, and to provide sustained drinking water to all villages by 2012.
- The plan also aimed at providing high quality gainful employment to the labour force over the plan period and aimed at increasing literacy rate to 72 per cent within the plan period and to 80 per cent by 2012.
- Target growth: 8.1 per cent.
- Growth achieved: 7.7 per cent.

## Eleventh Plan (2007–2012)
- Accelerate GDP growth from 8% to 10 per cent, increase agricultural GDP growth rate to 4 per cent per year, create 70 million new work opportunities and reduce educated unemployment to below 5 per cent.
- Raise real wage rate of unskilled workers by 20 per cent.
- Reduce dropout rates of children from elementary school from 52.2 per cent in 2003–04 to 20 per cent by 2011–12 and increase literacy rate for persons of age 7 years or above to 85 per cent.
- Lower gender gap in literacy to 10 percentage points and increase the percentage of each cohort going to higher education from the present 10 per cent to 15 per cent.
- Reduce infant mortality rate to 28 and maternal mortality ratio to 1 per 1000 live births.
- Reduce Total Fertility Rate to 2.1.
- Attain WHO standards of air quality in all major cities by 2011–12.
- Provide clean drinking water for all by 2009.
- Increase forest and tree cover by 5 percentage points.
- Reduce malnutrition among children between 0–3 years to half its present level and reduce anaemia among women and girls by 50 per cent.
- Raise the sex ratio for age group 0–6 to 935 by 2011–12 and to 950 by 2016–17.
- Ensure that at least 33 per cent of the direct and indirect beneficiaries of all government schemes are women and girl children.
- Ensure all-weather road connection to all habitation with population 1000 and above (500 in hilly and tribal areas) by 2009, and ensure coverage of all significant habitation by 2015.
- Treat all urban waste water by 2011–12 to clean river waters.
- Connect every village by telephone by November 2007 and provide broadband connectivity to all villages by 2012.
- Increase energy efficiency by 20 percentage points by 2016–17.
The 12th Five Year Plan (2012-2017)

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

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

There were three important revisions to the calculation of GDP in this period: (i) The base year has been changed from 2004-05 to 2011-12; (ii) more reliable data sources are used for the corporate, finance corporations and autonomous institutions and (iii) GDP is now calculated at market prices (broadly equivalent to consumer prices) instead of factor costs (broadly equivalent to producer prices).

Because the GDP had been estimated under the old methodology only up to the year 2013-14, we have the growth rates associated with both the old and new methodology for years 2012-13 and 2013-14 only. When measured at factor cost, the real GDP growth under the old methodology turns out to be 4.5 per cent in 2012-13 and 4.7 per cent in 2013-14. Because the Twelfth Plan projections were based on the old series, it may be reasonably concluded that at least in 2012-13 and 2013-14, India has performed worse than the ‘policy logjam’ scenario.

While the growth in industrial sector improved significantly over the years, the rate of growth of GVA in Agriculture, forestry & fishing and Services showed mixed trends. Increasing large share for services in total output at a relatively early stage of development is not typical and a matter of concern as, in India, the structural shift from agriculture to services is actually bypassing the industrial sector. The Twelfth Five Year Plan is the last Five Year Plan. The Planning Commission was replaced by the NITI Aayog.

Niti Aayog

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

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

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

(i) A vision document keeping in view the social goals set and/or proposed for a period of 15 years;
(ii) A 7-year strategy document spanning 2017-18 to 2023-24 to convert the longer-term vision into implementable policy and action as a part of a ‘National Development Agenda’; and
(iii) A 3-year Action document for 2017-18 to 2019-20 aligned to the predictability of financial resources during the 14th Finance Commission Award period. This is also to help translate into actions the goals of the government to be achieved by 2019.

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

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**Check Your Progress**

1. What do you mean by a planned economy?
2. Explain the role of the ‘Nehru-Mahalanobis’ model in the five-year plans.

### 3.3 CENTRALIZED PLANNING AND INDICATIVE PLANNING

#### 3.3.1 Centralized Planning and the Role of Government

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

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

Centralized planning is mostly executed in socialist or communist countries.

3.3.2 Indicative Planning

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

3.3.3 Components of or Approaches to Indicative Planning

Indicative planning involves three components or approaches:

1. **Forecasting approach:** Under this approach, information is given to individuals by making certain forecasts. Such forecasting helps towards a better decision making. The forecasting indicates about the feasible future, with specifications on a desirable future in terms of growth rate of the economy.

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

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

3.3.4 Liberalizing the Indian Economy

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

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

- There was a sharp decline in foreign exchange reserves from the level of ₹8,151 crores in March 1987 to ₹1,877 crores in early January 1991. While the standby IMF loan of ₹3,275 crores in the third week of January 1991 temporarily boosted our foreign exchange reserves, the declining trend in the foreign exchange reserves continued unabated during the subsequent period. Thus, the country’s foreign exchange reserves dropped to the lowest level ever of ₹1,877 crores, which was barely enough to finance the country’s imports for 13 days.
- Although the country always had a sizeable trade deficit during the 1980s, the level of trade deficit increased sharply during 1990-91 to cross the ₹10,000 crore mark for the first time in Indian economic history. Thus, the average level of trade deficit which used to be around ₹650 crores per month during 1988-89, it increased to around ₹900 crores per month in 1989-90.
- There was a significant deterioration in India’s credit rating. Standard and Poor (S&P) reduced India’s credit rating to the speculative grade. Similarly, the Japanese Bond Research Institute (JBRI) and Moody’s Investors’ Service lowered India’s credit rating to the lowest level in the investment grade. This led to a decline in the availability of short-term
credit even on relatively more stringent terms and conditions, thereby further accentuating the problem of financing the country’s monthly import requirements.

- A high degree of fiscal imbalance emerged as another major problem facing the Indian economy especially after 1986. The latter half of the eighties had been marked not only by high and growing budget deficits, but also by attempts on the part of the government to create a surplus in the capital account to finance its revenue deficit. This unhealthy tendency of borrowing money to finance current consumption expenditure of the government reached an alarming proportion in 1990-91 when the revised estimates of revenue deficit turned out to be ₹17,585 crores, while the overall budget deficit was reported to be ₹10,772 crores, indicating a net surplus of ₹6,813 crores on capital account. Moreover, the fiscal deficit, which represents the actual difference between aggregate government expenditure and current revenue reached the highest ever level of ₹43,331 crores in 1990-91. Thus, in the year 1990-91, nearly two-fifths of the revenue deficit had been financed by capital account surplus and the size of overall fiscal deficit has turned out to be as high as 8.6 per cent of GDP.

- The other major problems faced by the Indian economy especially during the years of the economic crisis were declining growth rates of GDP as well as industrial production and a rising rate of inflation. The Indian economy grew at an average rate of 5.5 per cent per annum during the period 1980 to 1989 as against the average rate of 3.5 per cent per annum during the previous three decades. However, the growth rate of GDP declined to 5.3 per cent in 1990-91 and to 14 per cent in 1991-92.

- Similarly, the growth rate of industrial production also declined from 8.8 per cent in 1988-89 to around 7.5 per cent in 1990-91. Moreover, while the average rate of inflation during the period 1980 to 1989 was around 6.4 per cent per annum, this increased sharply to 11.3 per cent during 1990-91.

- The cost of petroleum imports in 1990-1991 increased by half to US $5.7 billion due to the crisis in the gulf in August 1990. The Gulf crisis in August 1990 also exposed the Middle East’s strategic relevance for India. Along with the rising cost of petrol, the government also had to bear the additional weight of airlifting and rehabilitating 112,000 Indian workers from the Middle East. Remittances from the Middle East also declined because of the crisis in the gulf.

- The recession that was hitting the entire world during the time also contributed to deepening the economic crisis in India. World growth had come down to just 2.25 per cent in 1991 from 4.5 per cent in
The growth of exports to the United States, which was India’s largest market, turned negative in 1991. The conditions in the Soviet Union which was another major export destination for the country had also worsened. As a result, in 1990–1991, India’s exports only grew by 4 per cent.

Finally, during the period of 1990–1991, India was also going through a period of political instability, which added fuel to the economic crisis. The fragile National Front coalition led by V.P. Singh collapsed when the BJP withdrew its support. A new minority government led by Chandra Shekhar failed to pass the scheduled budget in February 1991 when it lost the Congress Party’s external support. In May 1991, while campaigning for the general elections, former Prime Minister Rajiv Gandhi was assassinated.

### Check Your Progress

3. Explain the centralized planning.
4. Enumerate the concept of indicative planning.
5. List the demerits of planning by inducement.
6. Explain the reasons behind liberalization of Indian economy in 1990s.

### 3.4 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

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

2. The ‘Nehru-Mahalanobis’ model was formulated by Prof. P.C. Mahalanobis under the guidance of Nehru. The ‘Nehru-Mahalanobis Model’ became the basis of the second five-year plan and continued to be guiding principle of all subsequent plans with small alterations until 1977 when the Janata Party came into power and conceived of the Gandhian model.

3. Under centralized planning, central authority or the government is authorized to take all the economic decisions. The government is endowed with the power to formulate economic plans, determine objectives, and set targets and priorities. It is the duty of every member to simply carry out the instructions without questioning about its feasibility.

4. Planning initiated by encouragement is often referred to as ‘indicative planning’ or ‘market incentives’. In such type of planning, incentives and inducements
influence the market. Therefore, in this system, there is persuasion rather than compulsion or intentional enforcement of orders.

5. Demerits of planning by inducements are as follows:

(a) Planning by inducement does not help achieve 100 per cent targets of economic planning.

(b) Under this kind of planning, profit motives are higher than welfare of public. Private entrepreneurs are interested only in those products which yield high profits. They are simply not attracted to products or services with less profit or no profit. Such products or services include education, health, defence, security, etc.

(c) The producers may not find the government policies regarding economic affairs to be attractive enough to follow. There may be disputes among entrepreneurs and the government regarding tax rates, investment policies, interest rates, etc.

(d) The mechanism of market economy may cause the prices to increase, especially with reference to under-developed countries or in case of oligopoly where there is a shortage of certain products like petroleum and gas.

(e) There may be disagreement between labour and producer, and there may be serious industrial disputes.

6. The restructuring of the Indian economy in the 1990s was an outcome of the unprecedented economic crisis that occurred in the nation in 1991. This economic crisis was the balance of payment crisis. The crisis of 1991 was a complex external payments crisis with high fiscal and current account deficits, external borrowing to finance the deficits, rising debt service obligations, rising inflation and inadequate exchange rate adjustment. The immediate causes of the crisis were the Gulf crisis and the global recession. However, the root cause of the crisis was the structure of the Indian economy itself.

3.5 SUMMARY

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

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

- The ‘Nehru-Mahalanobis Model’ became the basis of the second five-year
  plan and continued to be guiding principle of all subsequent plans with small
  alterations until 1977 when the Janata Party came into power and conceived
  of the Gandhian model.

- The model was also conscious of the fact that enormous investments in
  heavy industry, although very important, would not increase employment
  significantly, since such investments were capital-intensive.

- Under centralized planning, central authority or the government is authorized
  to take all the economic decisions. The government is endowed with the
  power to formulate economic plans, determine objectives, and set targets
  and priorities. Broadly speaking, there are chiefly three important areas
  encompassed by the policies of economic development.

- Planning initiated by encouragement is often referred to as ‘indicative planning’
  or ‘market incentives’. In such type of planning, incentives and inducements
  influence the market. Therefore, in this system, there is persuasion rather
  than compulsion or intentional enforcement of orders.

- The restructuring of the Indian economy in the 1990s was an outcome of
  the unprecedented economic crisis that occurred in the nation in 1991. This
  economic crisis was the balance of payment crisis. The immediate causes
  of the crisis were the Gulf crisis and the global recession. However, the root
  cause of the crisis was the structure of the Indian economy itself.

- During the period of 1990–1991, India was also going through a period of
  political instability, which added fuel to the economic crisis.

3.6 KEY WORDS

- The Nehru-Mahalanobis Model: The statistician P.C. Mahalanobis built
  on a model developed by Russian economist G.A. Feldman to provide a
  theoretical core to the Second Five-Year Plan. Then Prime Minister
  Jawaharlal Nehru believed that rapid industrialisation was the most effective
  way to win the battle against mass poverty. The ‘Nehru-Mahalanobis Model’
  became the basis of the second five-year plan.

- Indicative Planning: Planning by inducement is often referred to as indicative
  planning.

- Standard and Poor (S&P): A credit rating agency

- The Vaidyanathan Committee: Constituted under Prof R. Vaidyanathan
  to strengthen rural cooperative credit institutions.

- Mandis: Mandis are market set up by the state government for the sale of
  agricultural produce directly from the farmers.
The Minimum Support Price (MSP): MSP is a form of market intervention by the Government of India to insure agricultural producers against any sharp fall in farm prices.

3.7 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions
1. Present a brief analysis on the Nehruvian view of state-led development.
2. Enumerate the various components or approaches of indicative planning.
3. Write a brief note on the vision of the Eleventh Five-Year Plan.

Long-Answer Questions
1. Discuss the objectives of Planning in India.
2. Discuss the merits of indicative planning with reference to the setting of goal for the Five-Year Plan.
3. Discuss some key factors that led to the severe economic crisis in 1991.

3.8 FURTHER READINGS

UNIT 4  AGRICULTURE AND DEVELOPMENT

Structure
4.0 Introduction
4.1 Objectives
4.2 Agriculture: Role and Importance
4.3 Agriculture Development under the Five-Year Plans
  4.3.1 Meaning of Land Reforms
  4.3.2 Objectives of Land Reforms
  4.3.3 Tenancy Reforms
  4.3.4 Land Reforms in India after Independence
  4.3.5 Shortcomings in the Past
  4.3.6 Causes for Slow Progress of Land Reforms
4.4 Productivity and Measures: An Overview
  4.4.1 Remedies for Low Productivity
  4.4.2 Rashtriya Krishi Vikas Yojana (RKVY)
  4.4.3 National Food Security Mission (NFSM)
  4.4.4 National Policy for Farmers, 2007
4.5 Answers to Check Your Progress Questions
4.6 Summary
4.7 Key Words
4.8 Self Assessment Questions and Exercises
4.9 Further Readings

4.0 INTRODUCTION

Though the economic contribution of agriculture to national income and GDP is steadily declining since Independence, it still plays a significant role in the overall socio-economic fabric of India. Agriculture is aptly described as the backbone of Indian economy because this sector still constitutes large share of country’s national income though the share has declined substantially from early 1950s. Recent census data indicates that agriculture workers (cultivators and agricultural labourers) account for almost 60 percent of workforce of India. Also growth of other sectors and overall economy depends on the performance of agriculture to a considerable extent. It has also played important role as foreign exchange earner. Country’s agricultural performance has a multiplier effect on the Indian economy.

Thanks to the Green Revolution and various measures, India has made a lot of progress in agriculture since Independence in terms of growth in output, yields and area under many crops. Today, India is the largest producer of milk, fruits, cashew nuts, coconuts and tea in the world; it is the second largest producer of wheat, vegetables, sugar and fish and the third largest producer of tobacco and rice.
Because of low productivity and production in agriculture sector, India had an acute food shortage at the initial stage of Independence. The situation has drastically changed after introduction of the Green Revolution. The stated goal was to increase production of food grains through increasing per hectare yield of food grain crops by adaptation of new technology. As expected, this has brought fruitful results in agriculture sector. The introduction of high-yielding variety (HYV) or hybrid seeds along with pesticides, fertilizers and other inputs to farmers led to improvement in per hectare yield of wheat, rice. India has now achieved considerable growth in per hectare yield of cotton, oilseeds, fruits and milk.

Both the central and state governments launched various policy initiatives like Land Reforms and other institutional mechanism to boost the sector but the sector needs a holistic approach as it still employs a large number of people. A series of essential steps are required to raise agricultural productivity.

This unit aims at an in-depth analysis of role and significance of agriculture in Indian economy and discusses the remedial measures to be taken to stave of challenges that it is facing on account of various factors.

4.1 OBJECTIVES

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

- Know the contribution of agriculture in Indian economy
- Understand the massive dependence of population on agriculture
- Get an insight into massive spike in food grain production in India
- Enumerate agriculture development in the Five-Year Plan
- Understand Land Reforms and its role in transforming the lot of landless people
- Know the causes for slow progress of Land Reforms in India
- Understand the main causes for low productivity in agriculture
- Get informed about various agriculture schemes
- Understand the making of National Policy for Farmers and National Food Security Mission
- Enumerate the Role of the Green Revolution in agriculture modernization in India

4.2 AGRICULTURE: ROLE AND IMPORTANCE

Even though the share of agriculture in the total national income has been coming down due to the development of the secondary and tertiary sectors, the contribution of agriculture remains very significant. It has gone from 57 per cent in 1950 to just more than 26 per cent now. It is a known fact that the more developed a country,
the lesser is the contribution of agriculture. Today almost 60 per cent of the population depends directly or indirectly on agriculture. The greater independence of working population on agriculture indicates the underdevelopment of non-agricultural activities in the country. Agriculture provides raw materials to leading industries such as cotton textiles and sugar industries. Not only this, the workers in industries depend on agriculture for their food. Agriculture also provides the market for a variety of goods.

A number of the agricultural commodities like tea, coffee, spices and tobacco constitute our main items of export. This amounts to almost 15 per cent of our total exports. Hence, agriculture provides foreign exchange which helps us to buy machines from abroad. It also maintains a balance of payments and makes our country self-sufficient. Tertiary sector provides helpful services to the industries and agriculture like banking and warehousing. Internal trade is mostly done in agricultural produce. For example, various means of transport get the bulk of their business by the movement of agricultural goods. State governments get a major part of their revenue in terms of land revenue, irrigation charges, agricultural income tax, etc. The Central Government also earns revenue from export duties on the agricultural production. Moreover our government can raise substantial revenue by imposing agricultural income tax. However, this has not been possible due to some political reasons.

Our agriculture has brought fame to the country. India enjoys first position in the world as far as the production of tea and groundnuts is concerned. Agriculture plays an important role in internal trade. It is because of the fact that 90 per cent of our population spends 60 per cent of their income on the purchase of the items like food, tea and milk.

Agriculture has been a way of life and continues to be the single most important livelihood of the masses. Agricultural policy focus in India across decades has been on self-sufficiency and self-reliance in food-grains production. Considerable progress has been made on this front. Food grains production rose from 52 million tonnes in 1951-52 to 244.78 million tonnes in 2010-11.

Check Your Progress

1. Explain how contribution of agriculture in India is still significant.
2. What is the estimated production of food grains in 2011-12?

4.3 AGRICULTURE DEVELOPMENT UNDER THE FIVE-YEAR PLANS

During the first half of the 19th century, India was predominantly an agricultural country. About 68.5 per cent of the adult male population derived their livelihood from land. Even the artisans in villages, carpenters, cobblers, potters, washer men,
goldsmiths and ironsmiths pursued agriculture as their subsidiary occupation. This naturally increased the percentage of people working on land. Therefore, at the time of the national struggle for Independence, our leadership had mobilized the peasantry on the promise that once the country was liberated from colonial rule, they would introduce changes in the land relations. This process was initiated immediately after Independence. The central government directed the state governments to pass ‘land reform legislations’ that would abolish the intermediary landlords (zamindars) and grant ownership rights to the actual tillers of the land. Some legislations were also passed to grant security to the tenants. An upper ceiling on the holding size of land that a single household could possess was also fixed. The surplus land was to be surrendered to the state and was to be redistributed among those who had no land.

Though the legislations were passed by all the states, only in some cases did they produce the desired effects. It has been argued that only in those parts of the country where peasants were politically mobilized could the land reforms be effectively implemented. While the zamindari system was abolished in most parts, the ceiling legislations had very little effect.

4.3.1 Meaning of Land Reforms

The term ‘land reforms’ specifically refers to land tenure reforms. The word ‘tenure’, derived from the Latin word ‘teneo’, means ‘to hold’. Therefore, land tenure is used to refer to the condition under which land is held. It may also be looked at as an arrangement by which farmers hold or control land and the conditions that must be observed for its use and occupancy. Land is expropriated or confiscated and redistributed, in order to maintain this system.

Land reforms mainly encompass the following components:
- Abolition of intermediary tenures
- Tenancy reforms
- Ceiling of land holdings and distribution of surplus land
- Consolidation of holdings
- Compilation and updating of land records
- Reorganization of agriculture
- Cooperative farming

4.3.2 Objectives of Land Reforms

Land reforms were introduced in post-independent India to stop the exploitation of the actual tillers of the soil and pass on the ownership of land to them. Since Independence, the objectives of the Land Reform Policy have been as follows:
- Restructuring agrarian relations to achieve an egalitarian social structure
- Removing impediments from the agrarian structure inherited from the past
• Eliminating exploitation in land relations
• Realizing the age-old goal of land to the tiller
• Increasing agricultural production
• Infusing equality in society

4.3.3 Tenancy Reforms

Under the tenancy reforms, the following three measures were undertaken:
• Regulation of rent
• Security of tenure
• Conferment of ownership rights on tenants

4.3.4 Land Reforms in India after Independence

According to P. C. Joshi, various attempts to directly alter the pattern of the distribution of land holdings assumed four types of approaches in land reforms. They are enumerated below:
• Land reform through statutory enactments made and implemented by the state legislatures on the lines broadly indicated by the Central Government
• Land reform due to tile pressures of militant peasant action (Telangana and Naxalbari movements, for instance) and to some extent, land grab movement by various left peasant organizations
• Land reform by persuading landlords and through peaceful pressure by peasants (like the bhoomi and gramdan movements under the leadership of Vinoba Bhave)
• Land reform through legislative enactments in combination with peasant mobilization (like the controlled land seizure in West Bengal under the United Front Government during 1967–69 and protection of poor peasants in Kerala under the CPI Ministry)

Land reform continues to be a state subject but the Central guidelines provide the framework and the direction for enactments by the state legislatures and implementation of land reform measures by agencies of the state governments. Following the policy directive of the First Five-Year Plan, wherein increasing agricultural production was accorded top priority, the government set up a Central Committee for land reforms to review, from time to time, the progress of land reforms in different regions and to advise the states on their land reform proposals. The Plan stressed that the outlines of the policy would have to be conceived in terms of different interests in land, that is, those of:
• Intermediaries
• Large owners
• Small and middle level powers
The first major landmark in land policy came with the report of the Congress Agrarian Reform Committee, 1949, under the chairmanship of J. E. Kumarappa. The Committee was in favour of abolishing feudal intermediaries. Even the intermediaries that existed below the zamindars and jagirdars were proposed to be got rid of. Before formulating the proposals for the Second Five-Year Plan (1956–61), the Planning Commission constituted a panel on land reforms with the aim of reviewing the progress in the implementation of land policy proposed in the First Plan and studying further steps in connection with the Second Plan. Detailed proposals on land reforms were set out in the Second Plan for:

- Abolition of intermediaries
- Tenancy reforms (regulation of rent, security of tenure for tenants, and conferment of ownership on them)
- Ceiling on land holdings
- Agrarian re-organization, including consolidation of holdings and prevention of sub-division and fragmentation

The proposals in the Second Five-Year Plan were essentially in the nature of a broad common approach which had to be adapted and pursued in each state with due regard to local conditions and in response to local needs. In November 1969, the Chief Ministers’ Conference, convened by the Ministry of Food and Agriculture, emphasized the need for a central body for watching the progress on land reforms and providing guidance to state governments.

In September 1970, a subsequent Conference of Chief Ministers on Land Reforms held in Delhi decided that the entire range of problems connected with land should be referred to a central body. Accordingly, the Central Land Reforms Committee was constituted under the chairmanship of the Union Minister of Agriculture. It looked into the questions of ceiling, exemption, compensation, distribution of surplus land and implementation of reforms.

The Draft Fifth Five-Year Plan (1974–79) gave its assessment of land reforms as follows:

... the laws for the abolition of intermediary tenures have been implemented fairly efficiently, whilst in the fields of tenancy reform and ceiling on holdings legislation, it has fallen short of the desired objectives and implementation of the enacted laws has been inadequate.

The National Commission on Agriculture (1976) in its report on 'Policy and Strategy' emphasizes that for optimum results from agrarian restructuring, the programmes of land reform, consolidation of holdings, hind development, irrigation and drainage should be integrated and executed in a proper sequence.

The Sixth Plan (1980–85) observed that the less than satisfactory progress of land reforms has not been due to deficiencies in the policy but rather due to
tardy implementation of reforms and conferment of ownership rights. Both the Sixth and the Seventh Plans stressed, therefore, the effective implementation of the land reforms policy covering all the policy instruments.

The Seventh Plan enunciated land reforms to be an intrinsic part of ‘anti-poverty strategies’ and their need has been reiterated in every successive plan.

The Eighth Plan (1992–97) stressed that landlessness is the root cause of rural poverty. The Plan set seven objectives of land reforms as follows:

- Restructuring of agrarian relations to achieve egalitarian social structure
- Elimination of exploitation in land relations
- Actualization of the goal of ‘land to the tiller’
- Improvement of the socio-economic conditions of the rural poor by widening their land base
- Increasing agricultural productivity and production
- Facilitating land-based development of the rural poor
- Infusion of a greater measure of equality in local institutions

Land reforms continued to be an important policy instrument for poverty alleviation in the Ninth Plan (1997–2002). The Plan thus reiterated the basic points of the land reforms policy and emphasized the following issues:

- Detection and redistribution of the surplus land that has been ceiled
- Enforcement of the ceiling laws stringently as the small and marginal farms were viable in terms of efficiency and equity
- Rights of sharecroppers to be recorded and security of tenure to be provided to them
- Leasing of land to be made permissible within the ceiling limit
- Access to wasteland and common property resources to be given to the poor
- Ensuring land rights of women
- Consolidation of land holdings to be expedited with active involvement of village people
- Updation of land records to be considered a necessary pre-requisite for the success of the reform policy

The Tenth Plan (2002–07) admits that the need for the effective implementation of the existing land ceiling laws cannot be over-emphasized. The changes in the agrarian economy warrant a fresh look at tenancy laws, which may need to do away with all restrictive tenancy conditions. Farmers owning land below the ceiling limit may be provided a guarantee that their land would not be taken away. The fixation of rent could be left to the market forces. Given the extent of concealed tenancy in states that have banned tenancy, it is not likely to increase the area under tenancy dramatically in the short run in the medium- to long-term.
However, more land is expected to come on the land lease market which can be accessed by the rural poor.

Keeping this in view, the National Agricultural Policy (2000), inter alia, wanted the following issues to be accorded utmost attention for rural development and land reforms:

- Consolidation of holdings all over the country on the pattern of North-western states
- Redistribution of ceiling surplus lands and waste lands among the landless farmers, unemployed youth together with some initial start-up capital
- Tenancy reforms to recognize the rights of the tenants and sharecroppers
- Updation, improvement in and computerization of land records and issuing land pass-books to farmers
- Recognition of women’s rights on land

4.3.5 Shortcomings in the Past

Since land reforms constitute a state subject, the Central Government’s role is restricted to formulating general directions on this issue and persuading the state governments to take them up for implementation. The political will on the part of the state governments to enforce the legislation is weak, and the bureaucracy rather indifferent. However, the following points must be noted:

- Legal definitions of the terms have left room for different kinds of interpretation affecting the process of realizing the goals of the programmes.
- Distribution of land continues to be skewed. Agricultural workers, particularly scheduled castes and scheduled tribes, who constitute the bulk of the agricultural labour force, have not gained much from the abolition of zamindari.
- There remains a wide gap between the land distributed and its actual occupation by the beneficiaries, which is obstructed by physical prevention and litigation (the beneficiaries like landless labourers and poor peasants can hardly afford it).
- Identification of benami land (land held under a different name to circumvent the law) is not possible through the efforts of the administration alone. For this, support of the local organizations of the beneficiaries or the organizations representing the interest of the beneficiaries of land distribution is necessary.

Local civic organizations have to come up with innovative ideas to rectify inequities of land ownership in the rural areas, like in case of the Pani Panchayat in Ralegaon and Siddhi in Maharashtra. Under this, every member of the village, irrespective of the size of his landholding, has a proprietary right over the harvested water for irrigation. As the water available to each member is limited, members with large land holdings have been persuaded to lease their land to small and
marginal farmers and agricultural labourers who have water rights but no land. The arrangement has allowed the landless access to land. The large landholders have also benefited as they receive rent for land, which would otherwise have remained fallow for lack of irrigation.

4.3.6 Causes for Slow Progress of Land Reforms

The Task Force on Agrarian Relations set up by the Planning Commission for the purpose of appraising the progress and tending to the problems related to land reforms, headed by P.S. Appu, made a critical study of the land reform programme in India and enumerated the following causes of the slow progress of land reforms in India:

- **Lack of political will**: Considering the structure of the political power in the country, it was only natural that the required political will was not forthcoming.

- **Absence of pressure from below**: Besides a few scattered and localized pockets, poor peasants and agricultural workers were passive, unorganized and inarticulate all over the country. In these circumstances, it is no wonder that there has been no insistent pressure from them, a prerequisite for the effective implementation of land reform laws.

- **Inadequate policy instrument**: The administrative organization has proved to be an inadequate instrument for the speedy and efficient implementation of land reforms.

- **Legal hurdles**: Legislations relating to land reforms were full of loopholes. Some loopholes were deliberately built in, while others were the result of poor drafting. In almost all states, protracted litigation has delayed and often frustrated the implementation of land reform laws.

- **Absence of correct updated land records**: A programme that aims at the redistribution of income and wealth in the rural areas cannot succeed unless the beneficiaries can produce evidence of their rights. The position regarding records of tenancies, particularly in the matter of entries relating to the rights of sharecroppers is not satisfactory anywhere in the country and in some areas there are no records. The problem is largely administrative. The absence of up-to-date records is a serious obstacle in the implementation of land reforms.

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Check Your Progress

3. List the components which Land Reforms mainly encompass.

4. When did the first major landmark in land policy come to existence?

5. List the issues which were accorded utmost attention for rural development and land reforms under the National Agricultural Policy (2000).
4.4 PRODUCTIVITY AND MEASURES: AN OVERVIEW

The main causes for low productivity in agriculture are broadly of three types:

(i) **Human factors:** Human factors are those which are related to training and efficiency of the farmers. Under this we have:
   - Social atmosphere
   - Pressure of population on land

(ii) **Technical factors:** Technical factors include techniques and methods of production:
   - Traditional methods of cultivation
   - Old implements
   - Insufficient irrigation facilities
   - Problems of soil, pests and diseases of crops
   - Feeble cattle
   - Lack of credit facility
   - Lack of High Yielding Variety Seeds
   - Improper marketing

(iii) **Institutional factors:** Institutional factors include land holdings and land system:
   - Small size of farms
   - Defensive land tenure

4.4.1 Remedies for Low Productivity

A series of essential steps are required to raise agricultural productivity. At a broad level, this issue has two aspects: low average productivity at the national level and high variation in it regionally. The average productivity in rice is low relative to most of the major rice producing counties. India does better in wheat but the scope for improvement exists in this crop as well. The same goes for other crops including oilseeds, fruits and vegetables as well as activities such as animal husbandry, fisheries and poultry. The second broad productivity concern relates to regional variation. It is also evident that while Punjab and Haryana exhibit high productivity nationally, states such as Madhya Pradesh, Rajasthan, Maharashtra, Chhattisgarh, Odisha, and Karnataka suffer from quite low yields per hectare. The scope for improved productivity in these latter regions is substantial.

To increase productivity, progress is required along three dimensions: (i) Quality and judicious use of inputs such as water, seeds, fertilizer and pesticides; (ii) judicious and safe exploitation of modern technology including genetically
modified (GM) seeds; and (iii) shift into high value commodities such as fruits, vegetables, flowers, fisheries, animal husbandry and poultry. In the longer run, productivity enhancement requires research toward discovery of robust seed varieties and other inputs, appropriate crops and input usage for a given soil type and effective extension practices.

Agricultural research and development (R&D) in India has made impressive contribution in the past. But the system is under significant stress today with lack of clarity on focus and inefficient use of financial resources. Links among sister institutions have weakened and accountability declined over time. There is need for a rethink of the R&D system. Following steps can be taken to increase the agricultural productivity in India:

- The method of irrigation followed in the country is flood irrigation, which results in a lot of water loss. Greater efficiency in irrigation can be achieved through proper designing of irrigation system for reducing water conveyance loss. Adoption of water saving technologies such as sprinkler and drip irrigation system have proven extremely effective in not just water conservation but also leading to higher yields by delivering water in a controlled manner in parts of the plant where it is most efficiently absorbed. New agronomic practices like raised bed planting, ridge-furrow method of sowing, sub-surface irrigation, precision farming offers vast scope for economising water use.

- Promotion of alternative methods of planting such as System of Rice Intensification and Direct Seeded Rice can lead to water saving and productivity increases.

- Water productivity can be improved by adopting the concept of multiple use of water, which is beyond the conventional sectoral barriers of the productive sectors. There is scope for increasing the income through crop diversification and integration of fish, poultry and other enterprises in the farming system. Multiple use of water approach generates more income benefits, decreases vulnerability by allowing more diversified livelihood strategies and increases sustainability of ecosystem.

- Emphasis should be given on water resources conservations through watershed development in suitable areas and development of micro-water structures for rainwater harvesting. The promotion of water conservation efforts has direct implications for water resources availability, groundwater recharge and socio-economic conditions of the population.

- Specialised solution is required in chronically water stressed areas where the normal measures may not be effective. Connecting highly water stressed areas with perennial source of water through linking of rivers or water grids is one such option. The value added agri-horti-pastoral agro-forestry systems and alternative source of livelihood are required...
in these districts. These districts could be ideal candidates for prioritised intervention of watershed plus activities (water conservation along with livelihood support activities) under recently launched Pradhan Mantri Krishi Sinchai Yojana (PMKSY) and convergence with MGNREGA.

- The effective water management is critically linked with the performance of local level water institutions. Therefore, institutional restructuring in favour of participatory irrigation management and water users associations (WUAs) needs to be strengthened. National Water Policy is emphasizing the concept of Participatory Irrigation Management and WUA through active involvement of people in execution of irrigation project. According to the latest data available, 56,539 WUA manage 13.16 million hectare of irrigated land. It will be useful to evaluate the effectiveness of this participatory approach.

- As previously noted, priority must be given to the completion of ongoing irrigation projects over initiation of new ones through strengthening of programs such as Command Area Development Programme (CADP) and Accelerated Irrigation Benefits Programme (AIBP).

Seed is the true carrier of technology. In India, three sets of institutions produce seeds: research institutions and agricultural universities; public sector seed producing corporations; and private sector firms including multinationals. The last decade has seen two main developments in seed market. One, production of quality seed has risen at a rapid rate after 2005-06. And two, public sector has begun to effectively compete with the private sector.

4.4.2 Rashtriya Krishi Vikas Yojana (RKVY)

It was launched to incentivise the States to increase the share of investment in agriculture in their State plans. It aims at achieving the 4 per cent annual growth in the agriculture sector during the Eleventh Five-Year Plan period by ensuring a holistic development of agriculture and allied sectors. It is a State Plan Scheme and the eligibility for assistance under the scheme depends upon the amount provided in the State budgets for agriculture and allied sectors, over and above the baseline percentage expenditure incurred on agriculture and allied sectors. The funds under the RKVY are to be provided to the States as 100 per cent grant by the Central Government. The main objectives of the schemes are to:

- Incentivize the States to increase public investment in agriculture and allied sectors
- Provide flexibility and autonomy to the States in planning and executing agriculture and allied sector schemes
- Ensure the preparation of plans for the districts and the States based on agro-climatic conditions, availability of technology and natural resources
• Ensure that the local needs/crops/priorities are better reflected
• Achieve the goal of reducing the yield gaps in important crops, through focused interventions
• Maximize returns to the farmers

4.4.3 National Food Security Mission (NFSM)
It is a centrally-sponsored scheme, launched with the objective of increasing the production of rice, wheat and pulses by 10, 8 and 2 million tonnes, respectively, over the benchmark levels of production, by the end of the Eleventh Five-Year Plan period. The Mission aims at increasing food grains production of the above crops through area expansion and productivity enhancement; restoring soil fertility and productivity; creating employment opportunities; and enhancing farm level economy to restore confidence of farmers of targeted districts. It is being implemented in 305 districts of 16 States of the country. Various activities of NFSM relate to demonstration of improved production technology; distribution of quality seeds of HYVs and hybrids, popularization of newly released varieties, support for micronutrients, and training and mass media campaign including awards for best performing districts. The identified districts are given flexibility to adopt any local area specific interventions as are included in the Strategic Research and Extension Plan (SREP) prepared for the agriculture development of the district.

4.4.4 National Policy for Farmers, 2007
Government of India has approved the National Policy for Farmers, 2007 taking into account the recommendations of the National Commission on Farmers and after consulting the State Governments. The National Policy for Farmers, among other things, has provided for a holistic approach for development of the farm sector.

The primary focus of this policy is on ‘farmer’ defined holistically and not merely on agriculture. In that sense, it is much more comprehensive than an Agriculture Policy. The objective is, inter alia, to improve the economic viability of farming through substantially improving net income of farmers. Needless to say, there is emphasis on increased productivity, profitability, institutional support, and improvement of land, water and support services apart from provisions of appropriate price policy, risk mitigation measures and so on. The major goals of the National Policy for Farmers are to:

• Improve economic viability of farming by substantially increasing the net income of farmers and to ensure that agricultural progress is measured by advances made in this income
• Protect and improve land, water, bio-diversity and genetic resources essential for sustained increase in the productivity, profitability and stability of major farming systems by creating an economic stake in conservation
• Develop support services including provision for seeds, irrigation, power, machinery and implements, fertilizers and credit at affordable prices in adequate quantity for farmers
• Strengthen the bio-security of crops, farm animals, fish and forest trees for safeguarding the livelihood and income security of farmer families and the health and trade security of the nation
• Provide appropriate price and trade policy mechanisms to enhance farmers’ income
• Provide for suitable risk management measures for adequate and timely compensation to farmers
• Complete the unfinished agenda in land reforms and to initiate comprehensive asset and Aquarian reforms
• Mainstream the human and gender dimension in all farm policies and programmes
• Pay explicit attention to sustainable rural livelihoods
• Foster community-centred food, water and energy security systems in rural India and to ensure nutrition security at the level of every child, woman and man
• Introduce measures which can help attract and retain youths in farming and processing of farm products for higher value addition by making it intellectually stimulating and economically rewarding
• Make India a global outsourcing hub in the production and supply of the inputs needed for sustainable agriculture, products and processes developed through biotechnology and Information and Communication Technology (ICT).
• Restructure the agricultural curriculum and pedagogic methodologies for enabling every farm and home science graduate to become an entrepreneur and to make agricultural education gender sensitive
• Develop and introduce a social security system for farmers.
• Provide appropriate opportunities in adequate measure for non-farm employment for the farm households

Check Your Progress

6. List the main causes for low productivity in agriculture.
7. Enumerate the role of Rashtriya Krishi Vikas Yojana.
8. List the major goals of the National Policy for Farmers.
4.5 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Even though the share of agriculture in the total national income has been coming down due to the development of the secondary and tertiary sectors, the contribution of agriculture remains very significant. It has gone from 57 per cent in 1950 to just more than 26 per cent now. It is a known fact that the more developed a country, the lesser is the contribution of agriculture. Today, almost 60 per cent of the population depends directly or indirectly on agriculture.

2. As per the second advance estimates, production of food grains during 2011-12 is estimated at an all-time record level of 250.42 million tonnes which is a significant achievement mainly due to increase in the production of rice and wheat.

3. Land reforms mainly encompass the following components:
   - Abolition of intermediary tenures
   - Tenancy reforms
   - Ceiling of land holdings and distribution of surplus land
   - Consolidation of holdings
   - Compilation and updating of land records
   - Reorganization of agriculture
   - Cooperative farming

4. The first major landmark in land policy came with the report of the congress agrarian reform committee, 1949, under the chairmanship of J. E. Kumarappa. The committee was in favour of abolishing feudal intermediaries. Even the intermediaries that existed below the zamindars and jagirdars were proposed to be got rid of. Before formulating the proposals for the second five-year plan (1956–61), the planning commission constituted a panel on land reforms with the aim of reviewing the progress in the implementation of land policy proposed in the first plan and studying further steps in connection with the second plan.

5. Following issues were accorded utmost attention for rural development and land reforms under national agriculture policy (2000).
   - Consolidation of holdings all over the country on the pattern of north-western states
   - Redistribution of ceiling surplus lands and waste lands among the landless farmers, unemployed youth together with some initial start-up capital
   - Tenancy reforms to recognize the rights of the tenants and sharecroppers
6. The main causes for low productivity in agriculture are broadly of three types:

(i) Human factors: human factors are those which are related to training and efficiency of the farmers. Under this we have:
- social atmosphere
- pressure of population on land

(ii) Technical factors: technical factors include techniques and methods of production. These are:
- traditional methods of cultivation
- old implements
- insufficient irrigation facilities
- problems of soil, pests and diseases of crops
- feeble cattle
- lack of credit facility
- lack of high yielding variety seeds
- improper marketing

(iii) Institutional factors: institutional factors include land holdings and land system:
- small size of farms
- defensive land tenure

7. Rashtriya Krishi Vikas Yojana (RKVY) was launched to incentivise the states to increase the share of investment in agriculture in their state plans. It aims at achieving the 4 per cent annual growth in the agriculture sector during the eleventh five-year plan period by ensuring a holistic development of agriculture and allied sectors. It is a state plan scheme and the eligibility for assistance under the scheme depends upon the amount provided in the state budgets for agriculture and allied sectors, over and above the baseline percentage expenditure incurred on agriculture and allied sectors. The funds under the RKVY are to be provided to the states as 100 per cent grant by the central government.

8. The major goals of the national policy for farmers, 2007 are to:
- improve economic viability of farming by substantially increasing the net income of farmers
- protect and improve land, water, bio-diversity and genetic resources essential for sustained increase in the productivity, profitability and stability of major farming systems
• develop support services including provision for seeds, irrigation, power, machinery and implements, fertilizers and credit at affordable prices in adequate quantity for farmers
• strengthen the bio-security of crops
• provide appropriate price and trade policy mechanisms to enhance farmers’ income
• provide for suitable risk management measures for adequate and timely compensation to farmers
• complete the unfinished agenda in land reforms and to initiate comprehensive asset and aquarian reforms
• foster community-centred food, water and energy security systems in rural India and to ensure nutrition security at the level of every child, woman and man
• introduce measures which can help attract and retain youths in farming and processing of farm products for higher value addition by making it intellectually stimulating and economically rewarding
• develop and introduce a social security system for farmers.
• provide appropriate opportunities in adequate measure for non-farm employment for the farm households

4.6 SUMMARY

• Even though the share of agriculture in the total national income has been coming down due to the development of the secondary and tertiary sectors, the contribution of agriculture remains very significant. It has gone from 57 per cent in 1950 to more than 26 per cent now.

• A number of the agricultural commodities like tea, coffee, spices and tobacco constitute our main items of export. This amounts to almost 15 per cent of our total exports. Hence, agriculture provides foreign exchange which helps us to buy machines from abroad.

• During the first half of the 19th century, India was predominantly an agricultural country. About 68.5 per cent of the adult male population derived their livelihood from land. Even the artisans in villages, carpenters, cobblers, potters, washer men, goldsmiths and ironsmiths pursued agriculture as their subsidiary occupation.

• The term ‘land reforms’ specifically refers to land tenure reforms. The word ‘tenure’, derived from the Latin word ‘teneo’, means ‘to hold’. Therefore, land tenure is used to refer to the condition under which land is held. It may also be looked at as an arrangement by which farmers hold or control land and the conditions that must be observed for its use and occupancy.
Land reform continues to be a state subject but the Central guidelines provide the framework and the direction for enactments by the state legislatures and implementation of land reform measures by agencies of the state governments.

At the time of Independence, all the national leaders and political parties were in favour of introducing the land reform system in India. In principle, even now the political parties agree on constitutional and legal remedies for the tenancy reform system but various problems are encountered in the process of implementation.

Breakthroughs in basic and other modern sciences offer voluminous opportunities for developing transformative technologies for agriculture. However, this has not been happening in the country for a variety of reasons.

A series of essential steps are required to raise agricultural productivity. At a broad level, this issue has two aspects: low average productivity at the national level and high variation in it regionally.

The effective water management is critically linked with the performance of local level water institutions. Therefore, institutional restructuring in favour of participatory irrigation management and water users associations (WUAs) needs to be strengthened.

India’s total geographical area is 328.7 million hectares, of which 141 million hectares is the net sown area, while 190 million hectares is the gross cropped area. The net irrigated area is 57 million hectares with a cropping intensity of 134 per cent.

Government of India has approved the National Policy for Farmers, 2007 taking into account the recommendations of the National Commission on Farmers and after consulting the State Governments. The National Policy for Farmers, among other things, has provided for a holistic approach for development of the farm sector.

4.7 KEY WORDS

- **Benami Land**: Land held under a different name to circumvent the law.
- **Naxalbari Movement**: A peasant uprising in 1967 in Naxalbari, a nondescript village in north Bengal.
- **Water User Association (WUA)**: This is a group of water users, such as irrigators, who pool their financial, technical, material, and human resources for the operation and maintenance of a water system.
- **PL-480 scheme**: The controversial agreements made by India to import food from the United States of America under the PL-480 scheme started in 1956.
4.8 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions
1. Briefly discuss the efforts and initiatives which led to record production of food grains.
2. Do you think that Land Reforms has achieved its stated goal?

Long-Answer Questions
1. Discuss the contribution of agriculture in national income and manpower absorption in India.
3. Write a detailed note on initiatives taken in recent years by Indian government to reverse the downward trend in agricultural production.

4.9 FURTHER READINGS

Time and again, economists and policy makers have reiterated the significance of small businesses as they contribute towards creation of employment opportunities at low capital cost as well as play a pivotal role in the industrialization of a developing countries like India. As this is explained in the chapters which follow, the small scale industry (SSI), in addition to bringing in employment opportunities to around 12 million people, accounts for nearly 35 per cent of the gross value of output in the manufacturing sector and over 40 per cent of the total exports from the country.

So, the role of SSIs is remarkable in an economy where the problem of unemployment and underemployment is high and investment is low.

Significantly, India has adopted a slew of policies and programmes for the development of MSME sector. Its export development programme is playing a vital role to promote the MSME sector in exporting their products in international markets by providing assistance to the small enterprises. Institutions like small industries development bank of India (SIDBI) is playing a key role for promotion, financing and development of this sector.
Also, to build on the past industrial achievements and to accelerate the process of making Indian industry internationally competitive, industrial policy initiatives have been taken by Indian government. As a result, Indian economy is firmly on the path of steady growth. However, for accelerating manufacturing growth, we need to involve several strategies.

The unit aims at analysing the significance of small businesses and the role of various Five-Year Plans to accelerate and propel various industries in India.

### 5.1 OBJECTIVES

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

- Understand the role of the small scale industry (SSI)
- Get insight into the Micro, Small and Medium Enterprises Development (MSMED) Act
- Enumerate the characteristics of industrial policies for MSME
- Explain labour police in a comprehensive way
- Understand problems of industries
- Acquaint yourself with industrial development during the Five-Year Plans
- Explain manufacturing technology status

### 5.2 ROLE OF SMALL, MEDIUM AND COTTAGE INDUSTRIES

A notable sector of the Indian economy, the small scale industry (SSI) emerged during the 1980s. At present, it accounts for nearly 35 per cent of the gross value of output in the manufacturing sector and over 40 per cent of the total exports from the country. It also provides employment opportunities to around 12 million people.

The primary objective of the SSI policy of the Government of India is to impart more vitality and growth-impetus to the sector and enable it to contribute its might fully to the economy, particularly in terms of growth of output, employment and exports. The sector has been substantially delicensed. Further efforts are being made to deregulate and de-bureaucratize the sector with a view to remove all fetters on its growth potential, reposing greater faith in small and young entrepreneurs.

The Government of India has enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 in terms of which the definition of micro, small and medium enterprises is as under:

- Enterprises engaged in the manufacture or production, processing or preservation of goods as specified below:
  - A micro enterprise is an enterprise where investment in plant and machinery does not exceed ₹ 25 lakh.
ii. A small enterprise is an enterprise where the investment in plant and machinery is more than ₹ 25 lakh but does not exceed ₹ 5 crore.

iii. A medium enterprise is an enterprise where the investment in plant and machinery is more than ₹ 5 crore but does not exceed ₹ 10 crore.

In case of the above enterprises, investment in plant and machinery is the original cost excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification.

• Enterprises engaged in providing or rendering of services and whose investment in equipment (original cost excluding land and building and furniture, fittings and other items not directly related to the service rendered or as may be notified under the MSME Act, 2006 are specified below:

i. A micro enterprise is an enterprise where the investment in equipment does not exceed ₹ 10 lakh.

ii. A small enterprise is an enterprise where the investment in equipment is more than ₹ 10 lakh but does not exceed ₹ 2 crore.

iii. A medium enterprise is an enterprise where the investment in equipment is more than ₹ 2 crore but does not exceed ₹ 5 crore.

5.2.1 Meaning and Characteristics of Industrial Policies for MSME

The Indian government has adopted many policies and programmes for the development of Micro, Small and Medium Enterprises (MSME) sector, which may be discussed under the following heads.

1. Reservation Policy

Reservation of products for exclusive manufacture in the small scale sector was introduced for the first time in 1967 with the reservation of forty-seven items. Reservation affords support to SSIs against competition from medium/large/multinational companies. Reservation/de-reservation is a continuous process. As of 20 July 2010, twenty items were reserved for exclusive manufacture in the small scale sector.

2. Licensing Policy

The major impact of liberalization and globalization of economy, which started in India in July 1991, aimed at doing away with the system of Compulsory Licensing. As of now, four industries were industries are reserved for the Public Sector such as Arms and ammunition and allied items of defence equipment, Defence aircraft and warships; Atomic energy and the Railways; and six industries fall under the compulsory licensing. These comprise breweries and distilleries, tobacco industry, electronic aerospace and defence equipment of all types, industrial explosives such as detonating fuses, safety fuses, gunpowder, hazardous chemicals,
pharmaceuticals and others. Small units that employ less fifty workers and less than hundred workers are not required to obtain any license under Compulsory Licensing Provisions.

3. Trade Policy

Exports from the small scale sector over a period of time have acquired great significance in India’s foreign trade. The MSME sector today constitutes a very important segment of India’s economy and it accounts for nearly 40 per cent of the gross value of output in the manufacturing sector and about 50 per cent of the total exports from the country. Direct exports from the MSME sector account for 35 per cent of the total exports.

Export Promotion from the small scale sector has been accorded a high priority in the India’s export promotion strategy. The small industries due to their inherent strengths of low capital investment, high employment generation, maximum utilization of capacity, flexibility in operation, etc. are highly conducive for rapid industrialization and generation of export surpluses.

4. Export-Import Policy for Small Scale Sector

The various export-import policy for small scale sector are mentioned below:

i. Recognition of export houses/trading houses: The EXIM Policy in 1997–2002 policy has laid down certain criterion in order to recognize established exporters so that the marketing infrastructure can be further accentuated. The eligibility criteria for such recognition is based either on the basis of Free On Board (FOB) or Net Foreign Exchange value of exports of goods and services made directly by the exporters during the preceding three licensing years or the preceding licensing year. In an attempt to encourage exports from the small scale sector, the exports made by small scale sector manufacturer-exporters are given triple weightage for the purpose of recognition as EH/TH/STH/SSTH.

ii. Special import licence (SIL): Exporters recognized as Export Houses, Star Trading House, Trading Houses, etc. are eligible for grant of Special Import Licence (SIL) at certain percentage of their FOB value of exports/NFE.

5. Promotional schemes

To meet the challenges of international competition and to promote exports of MSME products, following promotional schemes are also being implemented:

(i) Technology development and modernization fund scheme

Small Industries Development Bank of India (SIDBI) implemented a scheme of technology development and modernization of MSME units with effect from April 1995. Under this scheme assistance is available for meeting the expenditure on purchase of capital equipment, acquisition of technical know-how, upgradation of
process technology and products with thrust on quality improvement, improvement of packaging and cost of TQM and acquisition of ISO-9000 series certification. The coverage of the scheme has been enlarged from export-oriented units to non-exporting units also in September 1997. Under this Scheme a sum of ₹ 152 crores has been sanctioned for 245 units by April, 1999.

(ii) Quality awareness scheme

Small Industries Service Institutes often organize workshops on ISO-9000 on certification and awareness of quality.

6. Subsidy for obtaining ISO-9000 quality Certification

Under the scheme of promoting ISO-9000 certification, MSMEs are given financial support by way of reimbursing 75 per cent of their expenditure to obtain ISO-9000 certification subject to a maximum of ₹ 75,000.

7. National Small Industries Corporation

The National Small Industries Corporation (NSIC) through its export development programme is playing a vital role to promote the MSME sector in exporting their products/projects in international markets by providing following assistance to the small enterprises. Various ways by which NSICs could be marketed and promoted are as follows:

- Organizing international exhibitions and buyers-sellers meet
- Providing information related to sales opportunities available in international market
- Advertising and publicity in various countries through Indian High Commissions and the Internet
- Publication of exporters directory
- Participating in global tenders
- Providing assistance in deemed exports
- Organization of seminars and workshops to upgrade and update MSME with regard to international developments

8. Foreign Direct Investment (FDI) Approval:

- An industrial undertaking, i.e., a company with interests in industry can invest up to 24 per cent equity in an SSI unit.
- If the equity goes beyond 24 per cent, the industrial unit loses its SSI status.
- There is no restriction on the extent of equity that can be held by a Non-resident Indian (NRI) as an individual/partner in an SSI unit.
- Investors need to file an application with the Reserve Bank of India (RBI) in the prescribed format and approval is ordinarily granted within 15 days.
• For foreign investment outside the automatic route, clearance has to be obtained from Foreign Investment Promotion Board (FIPB).
• Applications for setting up a 100 per cent Export Oriented Unit are also required to be filed with the SIA.
• For setting up a unit in an Export Processing Zone (EPZ), application has to be filed with the Development Commissioner of the concerned EPZ.
• Under automatic procedures, foreign technology agreements are being permitted in respect of industries that are designated as high priority industries.
• The use of foreign brand names and/or trade mark of goods is also now being permitted freely.

9. Credit Policy

Of all the elements that go into a business, credit is perhaps the most crucial. The best of plans can come to naught, if adequate finance is not available at the right time. MSMEs need credit support not only for running the enterprise and operational requirements but also for diversification, modernization/upgradation of facilities, capacity expansion and so on. With respect to MSMEs, the problem of credit becomes all the more critical whenever any episodic event occurs such as a large order, rejection of consignment, inordinate delay in payment and so on. In general, MSMEs operate on tight budgets, often financed through owner’s own contribution, loans from friends and relatives and some bank credit.

Government of India recognized the need for a focused credit policy for MSMEs in the early days of promotion of MSMEs. This in turn led to a credit policy with the following components:

10. Priority sector lending

Credit to the MSE sector is ensured as part of the priority sector lending by banks. Banks are required to compulsorily ensure that specified percentage (currently 40 per cent for domestic commercial banks and 32 per cent for foreign banks) of their overall lending is made to priority sectors as classified by Government. These sectors include agriculture, small enterprises, retail trade and the like institutional arrangement.

Small Industries Development Bank of India (SIDBI) is the principal financial institution for promotion, financing and development of the MSME sector. Apart from extending financial assistance to the sector, it coordinates the functions of institutions engaged in similar activities. SIDBI's major operations are in the areas of: (i) refinance assistance (ii) direct lending and (iii) development and support services. The commercial banks are important channels of credit dispensation to the sector and play a pivotal role in financing the working capital requirements, besides providing term loans (in the form of composite loans). State Financial Corporations (SFCs) and twin-function State Industrial Development Corporations (SIDCs) at the State level are the main sources of long-term finance for the MSME sector.
11. Labour Policy

Comprehensive laws as propounded by the government govern the labour policies for small scale industries. The following laws and policies are applicable for small scale industries in India:

- Apprentices Act, 1961
- The Beedi and Cigar Workers (Conditions of Employment) Act, 1966
- Bonded Labour System (Abolition) Act, 1976
- Child Labour (Prohibition & Regulation) Act, 1986
- The Children (Pledging of Labour) Act, 1933
- The Contract Labour (Regulation & Abolition) Act, 1970
- The Employees Provident Funds and Misc. Provisions Act, 1952
- Employees State Insurance Act, 1948
- Employers Liability Act, 1938
- Employment Exchange (Compulsory Notification of Vacancies) Act, 1959
- Equal Remuneration Act, 1976
- The Factories Act, 1948
- The Industrial Disputes Act
- The Industrial Employment (Standing Orders) Act, 1946
- The Inter-state Migrant Workmen (Regulation of Employment and Conditions of Service) Act, 1979
- Labour Laws (Exemption from Furnishing Returns & Maintaining Registers by Certain Establishments) Act, 1988
- Maternity Benefit Act, 1961
- The Minimum Wages Act, 1948
- The Payment of Bonus Act, 1965
- The Payment of Gratuity Act, 1972
- The Payment of Wages Act, 1936
- The Sales Promotion Employees (Conditions of Service) Act, 1976
- The Shops and Establishments Act, 1953
- The Trade Union Act, 1926
- Workmen’s Compensation Act, 1923
- The Weekly Holidays Act, 1942

Check Your Progress

1. What is the primary objective of the small scale industry (SSI) policy?
2. List the main characteristics of the industrial policy for MSME.
3. What role does the National Small Industries Corporation (NSIC) play?
4. List some of labour policies for small scale industries in India.
5.3 PROBLEMS AND ISSUES RELATED TO INDUSTRIES

The phenomenal growth of industries in the small scale sector has been the striking feature in the economic development of the country since Independence. It has contributed to the overall growth or the Gross Domestic Product as well as in terms of employment generation and export.

One of the measures of the policy support for promoting small scale industries is the policy of reservation of economically viable and technically feasible items for exclusive manufacture in the small scale sector. The policy of reservation initiated in 1967 primarily as promotional and protective measure vis-à-vis the large scale sector, grants protection to small scale sector, the only exception being the case of large units which undertake minimum level of exports as 75 per cent of their total production. The IDR Act was amended in March, 1984 empowering Government to reserve items for the small scale sector. Reservation/De-reservation of items for manufacture in the small scale sector is a continuing process regularly monitored by an Advisory committee on Reservation constituted under the IDR Act. At present the total number of items reserved for small scale sector are 799 as on 29 June 2001.

The small scale sector has acquired a prominent place in the socio-economic development of the country during the past four and a half decades. It has contributed to the overall growth of the gross domestic product as well as in terms of employment generation and export. Performance of the small scale sector, which forms a part of total industrial sector, therefore, has direct impact on the growth of the national economy.

There has been a steady increase in the number of SSI units, their production, employment and exports over the years. From 19, 58, 000 units in 1990-91, the number of units has increased to 33, 70, 000 units in the year 2000-01. On the production front also, there has been a steady increase over the previous year ranging between 7-10 per cent during the period 1990-91 to 1994-95. The increase was 11.4 per cent and 11.3 per cent in 1995-96 and 1996-97 respectively. In 1997-98 the increase over the previous year was registered at 8.43 per cent. The increase in the year 1998-99 & 1999-2000 were 7.7 per cent, and 8.16 per cent, respectively. The estimated increase for 2000-01 is 8.09 per cent.

The main issues related to small scale industries are listed as follows:
- Most production processes are old and outdated
- The workers are not technically sound
- The location of the units is not very convenient
- The units are not always economically viable because the cost of inputs is high, the size of the projects is uneconomic, financial requirements are not estimated properly and there is always an overestimation of demand.
NOTES

Industrial Policy and Development

- Capacity is underutilized; quality control is poor; inventory management and maintenance is inadequate
- There is high wastage
- Handling of labour problems is inefficient
- Manpower may be in excess but there is a death of skilled labour
- There is always a dependence on a single or small group of customers
- Pricing policy is inappropriate
- There is a lack of market research
- The working capital is inadequate
- Management is incompetent mainly due to lack of feedback to the higher ups and lack of professionalism

Other than the problems listed above, there are also external factors that pose problems for small-scale industries.

- The supply of raw materials is not regular
- Transport issues arise frequently due to long distances, poor quality of roads, natural disasters and weather issues
- Change in the policies of the government and price controls bring work to a standstill
- There are market limitations in terms of saturation and technological advancements causing existing products to become obsolete
- Multiplicity of labour unions as well as instability in terms of political situations can hinder work

The Small Scale Industry Sector has emerged as India’s engine of growth in the New Millennium. By the end of March 2000, the SSI sector accounted for nearly 40 per cent of gross value of output in the manufacturing sector and 35 per cent of total exports from the country. Through over 32 lakh units, the sector provided employment to about 18 million people.

The ongoing programme of economic reforms based upon the principle of liberalisation, globalisation and privatisation and the changes at the international economic scene including the emergence of World Trade Organization (WTO), have brought certain challenges and several new opportunities before the SSI Sector. The most important challenge faced by the sector is that of growing competition both globally and domestically. At the same time sector has also been facing some problems which relate to credit, infrastructure, technology, marketing, delayed payment hassles on account of so many rules and regulations etc. In order to enable this sector to avail the opportunities and play its role as an engine of growth, it is essential to address to these problems effectively and urgently.

With a view to provide more focused attention on the development of SSI, the Government of India created a new Ministry of Small Scale Industries & Agro
and Rural Industries in October 1999. Immediately after the formation of the Ministry, a Mission for the Millennium giving a blue print for small scale and village industries was announced. To carve out a road map for this sector in the New Millennium, the Hon'ble Prime Minister constituted a Group of Ministers under the Chairmanship of Shri L. K. Advani the Home Minister of India in June 2000. The background material for the consideration of the Group of Ministers was provided by the Interim Report of the S. P. Gupta Study Team constituted by the Planning Commission. This could bring about the following supports:

i. **Policy support:** The investment limit for the Tiny Sector will continue to be ₹ 25 lakhs. The investment limit for the SSI sector will continue to be at ₹ 1 crore. The Ministry of SSI & ARI will bring out a specific list of hi-tech and export oriented industries which would require the investment limit to be raised up to ₹ 5 crores to admit of suitable technology upgradation and to enable them to maintain their competitive edge. The Limited Partnership Act will be drafted quickly and got enacted. Attempt will be made to bring the Bill before the next session of the Parliament.

ii. **Fiscal support:** To improve the competitiveness of Small Scale Sector, the exemption for excise duty limit raised from ₹ 50 lakhs to ₹ 1 crore.

iii. **Credit support:** The composite loans limit raised from ₹ 10 lakhs to ₹ 25 lakhs. The Small Scale Service and Business (Industry Related) Enterprises (SSSBEs) with a maximum investment of ₹ 10 lakhs will qualify for priority lending. In the National Equity Fund Scheme, the project cost limit will be raised from ₹ 25 lakhs to ₹ 50 lakhs. The soft loan limit will be retained at 25 per cent of the project cost subject to a maximum of ₹ 10 lakhs per project. Assistance under the NEF will be provided at a service charge of 5 per cent per annum.

### 5.4 INDUSTRIAL DEVELOPMENT UNDER THE FIVE-YEAR PLANS

India started her quest for industrial development after Independence in 1947. The Industrial Policy Resolution of 1948 marked the beginning of the evolution of the Indian Industrial Policy. The resolution not only defined the broad contours of the policy, it delineated the role of the state in industrial development both as an entrepreneur and as an authority. Successive policy resolutions also emphasized this basic tilt in favour of the public sector. The Industrial Policy Resolution of 1956 gave the public sector a strategic role in the economy. It categorized industries which would be the exclusive responsibility of the state or would progressively come under state control and others. Earmarking the pre-eminent position of the public sector, it envisaged private sector co-existing with the state and thus attempted to give the policy framework flexibility.
The Industrial Policy initiatives undertaken by the Government since July 1991 have been designed to build on the past industrial achievements and to accelerate the process of making Indian industry internationally competitive. It recognizes the strength and maturity of the industry and attempts to provide the competitive stimulus for higher growth. The thrust of these initiatives has been to increase the domestic and external competition through extensive application of market-mechanisms and facilitating forging of dynamic relationships with foreign investors.

5.4.1 The Industrial Policy of 1948

The first industrial policy statement was issued in the Government’s Industrial Policy Resolution of April 1948. The resolution contemplated a mixed economy. There was a sphere reserved for private enterprise and another for public ownership. The Government of India felt that for some time the state could continue to increase the national wealth by expanding its present activities wherever it was already operating and by concentrating on new units of production in other fields rather than on acquiring and running existing units. Meanwhile, private enterprise, property directed and regulated, had a valuable role to play.

Thus it was decided that India would be a mixed economy in which both the public and private enterprises would work side by side for the economic development of the country. It was a compromise between private capitalism and state socialism.

5.4.2 Categories of Industry

In the Industrial Policy Statement of 1948, industries were divided into four categories:

The first category included such strategic industries as the manufacture of arms and ammunition, the production and control of atomic energy and the ownership and management of railway transport. It was decided that these should be the exclusive monopoly of the state and private enterprise was not to be permitted.

The second category included such basic and key industries as coal, iron and steel, ship-building, aircraft manufacture and manufacture of telephone, telegraph and wireless apparatus and mineral oils. For these industries it was laid down that the State would be exclusively responsible for the establishment of new undertakings while existing units would be allowed to operate for a period of 10 years at the end of which the position was to be reviewed. Since the responsibility of inviting new concerns was assumed by the State, private enterprise lost interest in this category of industries.

In the third category there was a list of 18 basic industries. These industries would ordinarily be operated by private enterprise but would be subject to central regulation and control since their locations had to be governed by economic factors of all-India importance or they required considerable investment and a high degree of technical skill.
Industrial Policy and Development

5.4.3 Foreign Capital

As regards foreign capital, it was recognized that in securing rapid industrial development, it had an important part to play. A free flow of foreign capital would be welcome because it would ensure the supply of capital goods and of technical know-how. But at the same time the conditions under which foreign capital would participate in Indian industry should be carefully regulated in the national interest. The Government’s policy gives the following assurances to foreign capital: (i) there will be no discrimination between foreign and Indian undertakings in the application of general industrial policy; (ii) reasonable facilities would be given for the remittance of profits and repatriation of capital consistent with foreign exchange position of the country; and (iii) in the event of nationalization, fair and equitable compensation would be paid.

For increasing industrial production, the resolution enunciated a policy of social justice, fair wages, increasing participation of labour in industrial affairs as a basis of harmonious relations between labour and management.

5.4.4 Mixed Economy

The Industrial Policy of 1948 envisaged a mixed economy. Mixed economy is the outcome of compromise between two diametrically opposite schools of thought—one which champions the cause of laissez faire capitalism and another which supports the cause of socialization of all means of production.

In a mixed economy the entire economic system is divided into three parts:

(i) Sectors exclusively controlled and managed by the private enterprise subject to the general control and regulation by the state
(ii) Sectors which are exclusively controlled and managed by the state
(iii) Sectors which are jointly managed and controlled by the State and private enterprise

5.4.5 Current Status of Industries in India

The Indian economy is firmly on the path of steady growth. Even during the last decade when other countries were in the grip of a massive slowdown, India continued to enjoy a comfortable economic position. This recent spurt in growth is...
propelled by radical reforms such as the removal of restrictions on foreign investment and industrial de-licensing. Tailoring the EXIM policy to promote exports and aligning the import duties to meet WTO commitments further contributed to this development. This trend is expected to continue over the next five years, driven by a favourable business policy environment in terms of tax cuts, broadening tax base, and reduced interest rates.

The liberalization of the economy has opened new windows of opportunity for manufacturing sector. Increasingly the success of manufacturing industries is dependent on innovations, research and development. It is critical not only to remain competitive but also, significant advantages can be gained by developing and commercializing new technologies.

The growth of Telecommunications is also alarming. In recent times, country has emerged as one of the fastest growing telecom markets in the world. Indian telecom has become the second largest wireless network in the world after China. The future progress of telecom in our country is very encouraging. The current addition of about 15 million connections per month puts the telecom sector on strong footing. The target of 500 million connections by 2010 has been achieved in September 2009 itself.

The manufacturing sector grew by 8.9 per cent in 2004-05, comfortably outperforming the sector’s long-term average growth rate of 7 per cent. The sector has remained one of the engines of economic growth since the start of 2005-06. India’s ranking among the world’s 10 largest manufacturing countries has improved by three places to sixth position in 2015.

In a major boost to the ‘Make in India’ initiative, the Make in India week which was held in Mumbai during 13-18 February, 2016, received an overwhelming response from investors. The fair had closed with INR 15.2 trillion (US$225.32 billion) in investment commitments. With the help of Make in India drive, India is on the path of becoming the hub for hi-tech manufacturing as global giants such as GE, Siemens, HTC, Toshiba, and Boeing have either set up or are in process of setting up manufacturing plants in India, attracted by India’s market of more than a billion consumers and increasing purchasing power.

Indian companies are no longer restricting themselves to component manufacturing. They are also focusing on using their expertise in CAD/CAM and in designing and engineering capabilities by entering into designing and development of components for new product. For example, Toyota Kirloskar will be developing the transmission systems for the entire global requirements of the new vehicle platform of Toyota.

India’s automotive component industry manufactures the entire range of parts required for vehicle manufacture. To meet international quality requirements and for tapping the global markets, the Indian auto ancillary units have entered into joint ventures with MNCs.
India is well positioned to potentially capture US$20-US$25 billion in exports. It should do so by primarily targeting components where it has an advantage over other Low Cost Countries (e.g., in skill-intensive components) or in components where it is comparable with them (e.g., simple labour intensive components, steel, rubber and aluminium-intensive components). This competitiveness is due to its inherent advantages in engineering skills and emerging capability for continuous improvement when compared with other Low Cost Countries (LCCs).

5.4.6 Manufacturing Technology Status

Technology development is critical to a country’s efforts in improving productivity, efficiency and competitiveness of its industrial sector. Factor cost advantages are being replaced by technology-related factors such as zero-defect product quality and international certification of firms’ quality assurance systems (e.g., ISO 9000) in determining international competitiveness. Central to maintaining competitiveness is the ability of producers to respond quickly and effectively to the changing demands of the international market.

Technological capabilities can be best described in terms of three levels: the basic level involves the ability to operate and maintain a new production plant based on imported technology, the intermediate level consists of the ability to duplicate and adapt the design for an imported plant and technique elsewhere in the country or abroad, while an advanced level involves a capability to undertake new designs and to develop new production systems and components.

Indian firms present a full spectrum of technological capabilities—while there are few firms close to the international frontier in terms of product design capability and process technology, technological capabilities of most players are extremely limited due to growing technological obsolescence, inferior quality, limited range and high costs. This adversely affects the ability of the organizations to respond to the challenges, not only of increasing international competition from other low-wage countries like China, but also from trade liberalization within the context of WTO.

Most Indian manufacturing firms appear to be stuck at the basic or intermediate level of technological capabilities. Though Indian manufacturing industry has mastered standard techniques it has remained dependent for highly expensive and complicated technologies.

5.4.7 Development of Different Industries During Plan Period

Before the First Plan, industrial development in India was confined largely to the consumer goods sector, the important industries being cotton textiles, sugar, salt, soap, paper and leather goods. Thus, the industrial structure exhibited the features of an underdeveloped economy. Industries manufacturing coal, cement, steel, power, non-ferrous metals, chemicals, etc., were also established but their
production was small. As far as the capital goods sector was concerned, only a
small beginning was made. On the whole, while consumer goods industries were
well-established, producer goods industries lagged considerably behind.

The First Plan did not envisage any large-scale programmes of
industrialization. Only ₹55 crore out of the total expenditure of ₹1960 crore in
the First Plan was spent on industry and minerals. The Second Plan accorded top
priority to programmes of industrialization which would be clear from the fact that
the expenditure on industry and minerals was increased to ₹938 crore under this
plan which was 20.1 per cent of the total expenditure of ₹4672 crore. Based on
the Mahalanobis Model, the Second Plan set out to establish basic and capital
goods industries on a large scale so that a strong base for industrial development
in the future could be built. Three steel plants of one million tonnes ingot capacity
each were set up in the public sector.

The Third Plan also emphasized the establishment of basic capital and
producer goods industries. Expenditure on industry in the Third Plan was ₹1, 726
crore, which was 20.1 per cent of the total expenditure of ₹8, 577 crore under
the plan. The structure of industrial development was further nurtured in the Fourth
and Fifth Plans with minor changes. The expenditure on industry was hiked to
22.8 per cent in the Fifth Plan. The Sixth Plan emphasized optimum utilization of
existing capacities and improvement of productivity and enhancement of
manufacturing capacity. Of the total expenditure of ₹109,292 crore under the
Sixth Plan, the share of the industrial sector was ₹15,002 crore which comes to
13.7 per cent. During this period, industrial and trade policies were substantially
liberalized.

Objectives for the industrial sector in the Seventh Plan were kept as follows:
(i) to ensure adequate supply of wage goods at reasonable prices, (ii) to maximize
the utilization of the existing facilities through restructuring and upgradation of
technology, (iii) to concentrate on development of industries with large domestic
market and export potential, (iv) to usher in ‘sunrise’ industries with high growth
potential and relevance to our needs, and to evolve an integrated policy towards
self-reliance in strategic fields and open up avenues for employment. The overall
outlay envisaged in the Seventh Plan for industrial and mineral programmes in the
public sector was ₹22,416 crore. Industrial production was targeted to grow at
the rate of 8.7 per cent per annum. The actual average rate of growth during the
Seventh Plan was 8.5 per cent per annum. As far as the Eighth Plan is concerned,
the overall outlay for industrial and mineral programmes in the public sector was
kept at ₹40,588 crore. This is only 9.3 per cent of the total outlay of ₹434,100
crore in the Plan. The Ninth Plan envisages an industrial growth of 8.2 per cent
per annum.

Policies advocated to achieve this growth rate are: (i) ensuring adequate
availability and requisite quality of infrastructure, (ii) adoption of special measures
to promote the development of industries in backward areas, (iii) introducing a
special package for the industrial development of the North Eastern States, (iv)
reviewing the working of Board for Industrial and Financial Reconstruction (or BIFR) and bringing about necessary changes to make it an effective instrument of reviving sick industrial units, (iv) initiating steps to close down potentially unrevivable public units, (v) promoting production and productivity in the small-scale industries through technological upgradation and (vi) adoption of a cluster approach in the unorganized sector for provision of training, upgradation of skills and improvement in tool kits, equipment and production techniques to increase production and income levels of artisans and workers.

5.4.8 Five-Year Plans

The growth and development of the Indian economy is improved and enhanced with the help of the Five-Year plans, which are formulated, put into action and controlled by the Planning Commission. The 11th five-year plan (2007-2012) has come to an end and the 12th five-year has begun (2012-2017).

The Planning Commission was set up in March, 1950 by a Resolution of the Government of India which defined the scope of its work in the following terms:

The Constitution of India has guaranteed certain Fundamental Rights to the citizens of India and enunciated certain Directive Principles of State Policy, in particular, that the State shall strive to promote the welfare of the people by securing and protecting as effectively as it may a social order in which justice, social, economic and political, shall inform all the institutions of the national life, and shall direct its policy towards securing, among other things:

- That the citizens, men and women equally, have the right to an adequate means of livelihood
- That the ownership and control of the material resources of the community are so distributed as best to subserve the common good
- That the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment

Having regard to these rights and in furtherance of these principles as well as of the declared objective 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.

5.4.9 12th Five-Year Plan

The basic objective for the Twelfth Plan is faster, more inclusive and sustainable growth.

A key issue is what the growth target should be. The target of 10 per cent is being mentioned, but as per internal assessment even 9 per cent will be difficult given the constraints the country is facing. In the short to medium run, the main
Industrial Policy and Development

NOTES

Self-Instructional Material

constraints relate to insufficient agricultural growth leading to inflation, growing skill shortages, and the unsettled global economy. In the longer run, the environment and natural resources, particularly energy and water, pose serious challenges. Therefore, a target range of GDP growth of 9 to 9.5 per cent is being proposed.

It is felt that an inclusive growth strategy is essential to address some of the main growth constraints outlined above, and to make the target growth rate feasible. The following are the key instruments for making growth more inclusive:

- Better performance in agriculture (at least 4 per cent growth).
- Faster creation of jobs in manufacturing. A target has to be specified for extra jobs to be created in this sector in next 5 years. This will be worked out in greater detail, but at its heart lies the ability to spread industrial growth more widely.
- Both agricultural and manufacturing growth will depend upon the creation of appropriate infrastructural facilities in a widely dispersed manner. Rural connectivity is particularly important in this regard, especially in the backward areas and the north-east.
- There must be a much stronger effort at health, education and skill development.
- Reforming the implementation of flagship programmes to increase their effectiveness in achieving the objective of greater inclusion.
- Special challenges focused by vulnerable groups and backward regions. The need for a special focus on backward regions has particularly become urgent.

Check Your Progress

5. List the main issues related to small scale industries.
7. List the various categories of industries.
8. What do you mean by Mixed Economy?
9. In the 12th Five-Year Plan, what are the key instruments for making growth more inclusive?

5.5 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. The primary objective of the SSI policy of the government of India is to impart more vitality and growth-impetus to the sector and enable it to contribute its might fully to the economy, particularly in terms of growth of output, employment and exports. The sector has been substantially
Industrial Policy and Development

delicensed. Further efforts are being made to deregulate and de-bureaucratize the sector with a view to remove all fetters on its growth potential, reposing greater faith in small and young entrepreneurs.

2. The Indian government has adopted many policies and programmes for the development of micro, small and medium enterprises (MSME) sector. These are: reservation policy, licensing policy, trade policy, export-import policy, foreign direct investment (FDI) approval, credit policy, priority sector lending, etc.

3. The National Small Industries Corporation (NSIC) through its export development programme is playing a vital role to promote the MSME sector in exporting their products/projects in international markets by providing following assistance to the small enterprises.

4. Some of the law and labour policies applicable for small scale industries in India are:
   • apprentices act, 1961
   • the beedi and cigar workers (conditions of employment) act, 1966
   • bonded labour system (abolition) act, 1976
   • child labour (prohibition & regulation) act, 1986
   • the children (pledging of labour) act, 1933
   • the contract labour (regulation & abolition) act, 1970
   • the employees provident funds and misc. Provisions act, 1952

5. Some of the major issues related to small scale industries are listed as follows:
   • most production processes are old and outdated
   • the workers are not technically sound
   • the location of the units is not very convenient
   • the units are not always economically viable because the cost of inputs is high, the size of the projects is uneconomic, financial requirements are not estimated properly and there is always an overestimation of demand
   • capacity is underutilized; quality control is poor; inventory management and maintenance is inadequate
   • there is high wastage
   • handling of labour problems is inefficient
   • manpower may be in excess but there is a death of skilled labour

6. India started her quest for industrial development after independence in 1947. The industrial policy resolution of 1948 marked the beginning of the evolution of the Indian industrial policy. The resolution not only defined the broad contours of the policy, it delineated the role of the state in industrial
Industrial Policy and Development

NOTES

7. In the industrial policy statement of 1948, industries were divided into four categories:

The first category included such strategic industries as the manufacture of arms and ammunition, the production and control of atomic energy and the ownership and management of railway transport. It was decided that these should be the exclusive monopoly of the state and private enterprise was not to be permitted.

The second category included such basic and key industries as coal, iron and steel, ship-building, aircraft manufacture and manufacture of telephone, telegraph and wireless apparatus and mineral oils. For these industries it was laid down that the state would be exclusively responsible for the establishment of new undertakings while existing units would be allowed to operate for a period of 10 years at the end of which the position was to be reviewed. Since the responsibility of inviting new concerns was assumed by the state, private enterprise lost interest in this category of industries.

In the third category there was a list of 18 basic industries. These industries would ordinarily be operated by private enterprise but would be subject to central regulation and control since their locations had to be governed by economic factors of all-India importance or they required considerable investment and a high degree of technical skill.

The other industries would normally be opened to private enterprise, individual as well as co-operative.

8. The industrial policy of 1948 envisaged a mixed economy. Mixed economy is the outcome of compromise between two diametrically opposite schools of thought—one which champions the cause of laissez faire capitalism and another which supports the cause of socialization of all means of production.

9. The following are the key instruments for making growth more inclusive:

- better performance in agriculture (at least 4 per cent growth).
- faster creation of jobs in manufacturing. A target has to be specified for extra jobs to be created in this sector in next 5 years. This will be worked out in greater detail, but at its heart lies the ability to spread industrial growth more widely.
- both agricultural and manufacturing growth will depend upon the creation of appropriate infrastructural facilities in a widely dispersed manner. Rural connectivity is particularly important in this regard, especially in the backward areas and the north-east.
there must be a much stronger effort at health, education and skill development.

- reforming the implementation of flagship programmes to increase their effectiveness in achieving the objective of greater inclusion.
- special challenges focused by vulnerable groups and backward regions. The need for a special focus on backward regions has particularly become urgent.

5.6 SUMMARY

- At present, small scale industry (SSI) accounts for nearly 35 per cent of the gross value of output in the manufacturing sector and over 40 per cent of the total exports from the country. It also provides employment opportunities to around 12 million people.

- The major impact of liberalization and globalization of economy, which started in India in July 1991, aimed at doing away with the system of compulsory licensing. As of now, four industries were industries are reserved for the public sector such as arms and ammunition and allied items of defence equipment, defence aircraft and warships, atomic energy and the railways; and six industries fall under the compulsory licensing.

- Export promotion from the small scale sector has been accorded a high priority in the India’s export promotion strategy. The small industries due to their inherent strengths of low capital investment, high employment generation, maximum utilization of capacity, flexibility in operation, etc. Are highly conducive for rapid industrialization and generation of export surpluses.

- Credit to the MSME sector is ensured as part of the priority sector lending by banks. Banks are required to compulsorily ensure that specified percentage (currently 40 per cent for domestic commercial banks and 32 per cent for foreign banks) of their overall lending is made to priority sectors as classified by government. These sectors include agriculture, small enterprises, retail trade and the like institutional arrangement.

- One of the measure of the policy support for promoting small scale industries is the policy of reservation of economically viable and technically feasible items for exclusive manufacture in the small scale sector.

- The ongoing programme of economic reforms based upon the principle of liberalisation, globalisation and privatisation and the changes at the international economic scene including the emergence of world trade organization (WTO), have brought certain challenges and several new opportunities before the SSI sector.

- India started her quest for industrial development after independence in 1947. The industrial policy resolution of 1948 marked the beginning of the
evolution of the Indian industrial policy. The resolution not only defined the broad contours of the policy, it delineated the role of the state in industrial development both as an entrepreneur and as an authority.

- As regards foreign capital, it was recognized that in securing rapid industrial development, it had an important part to play. A free flow of foreign capital would be welcome because it would ensure the supply of capital goods and of technical know-how. But at the same time the conditions under which foreign capital would participate in Indian industry should be carefully regulated in the national interest.

- In a major boost to the ‘Make in India’ initiative, the Make in India week which was held in Mumbai during 13-18 February, 2016, received an overwhelming response from investors. The fair had closed with INR15.2 trillion (US $225.32 billion) in investment commitments.

- Most Indian manufacturing firms appear to be stuck at the basic or intermediate level of technological capabilities. Though Indian manufacturing industry has mastered standard techniques it has remained dependent for highly expensive and complicated technologies.

- The growth and development of the Indian economy is improved and enhanced with the help of the five-year plans, which are formulated, put into action and controlled by the planning commission. The 11th five-year plan (2007-2012) has come to an end and the 12th Five-Year Plan has begun (2012-2017).

- Manufacturing performance is weak. Growth of manufacturing in the 11th plan was only 8 per cent. We need to raise this to 11-12 per cent per year in the 12th plan to create the jobs for our growing labour force.

- A large part of the additional growth will have to come from the MSME (Micro, Small and Medium enterprises) sector, which continues to face a plethora of hurdles in realizing its true potential.

### 5.7 KEY WORDS

- **EXIM policy**: India’s foreign trade policy is guided by the export-import and known in short as EXIM policy of the Indian government. It is regulated by the foreign trade development and regulation act, 1992. DGFT (Directorate General of Foreign Trade) is the main governing body in matters related to EXIM policy.

- **Special Import Licence (SIL)**: Export houses, star trading house, trading houses, etc. Are eligible for grant of special import licence.

- **Small industries development bank of India (SIDBI)**: this is the principal financial institution for promotion, financing and development of the MSME sector.
Industrial Policy and Development

NOTES

• **Laissez-faire**: a doctrine opposing governmental interference in economic affairs beyond the minimum necessary for the maintenance of peace and property rights.

• **The World Trade Organization (WTO)**: WTO is an intergovernmental organization that regulates international trade. The WTO officially commenced on 1 January 1995 replacing the general agreement on tariffs and trade, which commenced in 1948.

5.8 SELF ASSESSMENT QUESTIONS AND EXERCISES

**Short-Answer Questions**

1. Write a brief note on the significance of Small Scale Industry (SSI) in India.
2. Under which terms the micro, small and medium enterprises development (MSMED) act came to existence?
3. Enumerate in brief about the export-import policy for small scale sector in India.
4. Explain the role of Foreign Direct Investment (FDI) in MSME sector.
5. How has liberalisation impacted the growth of small businesses? Explain the statement with relevant data.
6. Explain the role of industrial development policy in India.
7. What were the main objectives for the industrial sector in the Seventh Plan?

**Long-Answer Questions**

1. Discuss in detail about the primary objective of the micro, small and medium enterprises (MSMEs).
2. Give an analytical perspective of various policies and programmes initiated by Indian government for the development of micro, small and medium enterprises (MSME) sector.
3. Write a detailed note on the role of national small industries corporation (NSIC).
4. Discuss the various laws enacted under the labour policy for MSME sector in India.
5. Discuss India’s industrial development policy envisaged under the various Five-Year Plans.
6. Write an overview on the current status of Indian industries.
7. Discuss the various steps taken to accelerate and propel the manufacturing performance of MSME sector in India.
5.9 FURTHER READINGS


UNIT 6  APPRAISAL OF PLANNING AND ECONOMIC REFORMS

Structure
6.0 Introduction
6.1 Objectives
6.2 Understanding India's Economic Reforms
   6.2.1 Structural Adjustment Programmes: Globalization, Liberalization and Privatization
   6.2.2 Liberalization: An Overview
   6.2.3 Privatization and its Forms and Objectives
   6.2.4 AIMS of Liberalization, Globalization and Privatization
   6.2.5 Review of Economic Reforms
   6.2.6 Globalization and its Objective
   6.2.7 Rationale behind Economic Reforms
6.3 NITI Aayog
6.4 Answers to Check Your Progress Questions
6.5 Summary
6.6 Key Words
6.7 Self Assessment Questions and Exercises
6.8 Further Readings

6.0 INTRODUCTION

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

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

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

Moreover, many economists argue that the solution to industrial sickness in the public sector is privatization. But privatization is not the real solution as closing down PSUs will involve heavy financial as well as other costs. It would be better if the management of ailing psus comes out with credible revival packages.

Meanwhile, NITI (National Institution for Transforming India) Anyog had replaced the erstwhile planning commission in 2015. This is touted as the policy think tank of government of India and aims at achieving sustainable development goals and to enhance cooperative federalism by nurturing involvement of states in the economic policy-making process.

This unit aims at taking appraisal of India’s economic reforms which brought in structural changes and accelerated the growth of Indian economy.

### 6.1 OBJECTIVES

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

- Understand the need for reforming Indian economy
- Explain the Government of India’s position on the issue of privatization and globalization
- Enumerate the main aims of new economic policy
- Know the steps taken to dismantle industrial licensing and control
- Explain various forms of privatization
- Get an appraisal of economic reforms
- Bring in a right perspective about the reforms in public sector undertaking (PSUs)
6.2 UNDERSTANDING INDIA’S ECONOMIC REFORMS

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

6.2.1 Structural Adjustment Programmes: Globalization, Liberalization and Privatization

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

There were three aims of the new economic policy—liberalization, globalization and privatization.

6.2.2 Liberalization: An Overview

The main aim of liberalization was to dismantle the excessive regulatory framework which acted as a shackle on freedom of enterprise. Over the years, the country had developed a system of licence-permit-control raj. The aim of the new economic policy was to save the entrepreneur the unnecessary harassment of seeking permission from the bureaucracy to start an undertaking.

Similarly, the big business houses were unable to start new enterprises because the MRTP Act had prescribed a ceiling on the asset ownership to the extent of Rs. 100 crore. In case a business house had assets more than Rs. 100 crore, its application was rejected. It was believed that on account of the rise in prices this limit had become outdated and needed reviewing. The second objection by the private sector lobby was that it prevented big business houses from investing in heavy industry and infrastructure, which required lump sum investment. The NDA in its election manifesto had suggested that the asset limit of MRTP companies should be raised to Rs 1000 crore. The government thought it wise to abolish the limit altogether so that big businesses could establish big projects in the core sectors—heavy industry, petrochemicals, electronics, etc. The Government was of the view that in the context of liberalization, the MRTP limit had become irrelevant and needed to be scrapped.
The major purpose of liberalization was to free the large private corporate sector from bureaucratic controls. It therefore, started dismantling the regime of industrial licensing and control. In pursuance of this policy, the industrial policy of 1991 abolished industrial licensing for all projects except for a small set of 18 industries.

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

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

6.2.3 Privatization and its Forms and Objectives

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

(i) Ownership Measures: The degree of privatization is judged by the extent of ownership transferred from the public enterprise to the private sector. Ownership may be transferred to an individual, co-operative or corporate sector. This can have three forms:

(a) Total denationalisation implies 100 per cent transfer of ownership of a public enterprise to the private sector.

(b) Joint venture implies partial transfer of a public enterprise to the private sector. It may have several variants—25 per cent transfer to private sector in a joint venture implies that majority ownership and control remains with the public sector. Fifty one per cent transfer of ownership to the private sector shifts the balance in favour of the private sector, though the public sector retains a substantial stake in the undertaking. seventy-four per cent transfer of ownership to the private sector implies
a dominant share being transferred. In such a situation, the private sector is in a better position to change the character of the enterprise.

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

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

(ii) **Organisational Measures:** These include a variety of measures to limit state control, such as:

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

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

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

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

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

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

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

6.2.4 AIMS of Liberalization, Globalization and Privatization

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

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

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

(i) The excessive development of bureaucratic controls acted as shackles on growth.
(ii) Overstaffing in public sector enterprises led to an increase in the cost of operation.
(iii) Low rate of return on investment in public sector.
(iv) Poor work ethic in public sector enterprises due to excessive job security and absence of incentives for better work.
(v) Entry of public sector in areas of consumer goods for which it was never meant. Thus unnecessary expansion resulted in the absence of focus and dilution in the quality of management.

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

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

6.2.5 Review of Economic Reforms

There is general agreement among all political parties that reforms are a historical necessity and it is not possible to reverse the reform process. Even the Left parties, after the collapse of the former Soviet Union, have accepted the view that reforms in the form of liberalization, privatization and globalization will have to be undertaken.

The reforms process has helped to accelerate growth. However, the benefits of growth have not percolated to the poor and weaker sections of the society.

<table>
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<tr>
<th>Year</th>
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<td>1991–92</td>
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<tr>
<td>1992–93</td>
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<td>1993–94</td>
<td>4.5 per cent</td>
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<tr>
<td>1996–97</td>
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1. **Higher growth rate achieved:** Since the reform process was initiated the growth rate of the economy has started picking up. The growth rate of GDP slumped to 0.9 per cent in 1991–92, but picked up thereafter. The average growth rate of over 6 per cent during the five years (1992–93 to 1996–97) is an achievement of the reform process. This would result in an average 4 per cent growth rate of per capita GDP.

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

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

3. **Reform of the Public Sector:** The major aim of economic reforms is to improve the public sector so that the rate of return improves. To remedy the situation, it was necessary that overstaffing of the public sector...
undertakings be reduced. The government has already taken steps in this direction by its voluntary retirement scheme. It set up the National Renewal Fund to provide compensation for voluntary retirement and also arranged for retraining and redeployment of workers. As a result of the VRS, the employee strength of PSUs has been reduced by 8 per cent.

Another step taken by the government was disinvestment in PSUs. The government has been offering equity of 31 selected public sector enterprises, varying from 5 per cent to 20 per cent to Mutual Funds and Financial Institutions. This is only a token privatization and the government was able to raise Rs. 9793 crore during the four-year period (1991–92 to 1994–95).

Critics describe disinvestment as deficit privatization because the proceeds of disinvestment are being used to reduce the budget deficit. The Common Minimum Programme of the NDF Government stipulated that the proceeds of disinvestment would be used in two vital areas—health and education.

On the whole, the reforms of PSUs have not gathered as much momentum as expected. Disinvestment has been piecemeal and the funds so raised are being used to reduce budget deficits rather than strengthen the PSUs. In addition, labour problems, political and bureaucratic interference have not been effectively used. Since it is not possible to privatise a large component of the public sector, it would be advisable to reform it.

4. Large dose of Foreign Capital to help Indian Economy: The reforms process, especially its emphasis on globalization, was intended to accelerate the growth process by attracting a larger dose of foreign capital. However, the efforts of the state met with only partial success. The data reveal that during 1991–92 to 1995–96, total investment flows of the order of Rs. 1,174 billion were made, out of which portfolio investment was of the order of Rs. 8.05 billion and direct foreign investment accounted for barely $ 3.69 billion.

Critics point out that mainly 39 per cent of foreign investment is in the non-priority sector. The entry of multinationals in consumer goods only displaces Indian labour and capital employed in the production of these commodities.

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

6.2.6 Globalization and its Objective

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

(i) Reduction of trade barriers so as to permit free flow of goods and services across national frontiers;
(ii) Creation of an environment in which free flow of capital can take place;

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

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

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

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

(i) **Reduction of import duties:** There has been a considerable reduction in import during the past five years. The maximum rate was reduced from 150 per cent in 1991–92 to 110 per cent in 1992, to 85 per cent in 1993–94 and 50 per cent in 1995–96. Custom duties on imports of capital goods were reduced to 80 per cent in July 1991, to 55 per cent in 1992 and to 25 per cent in 1995. Tariffs on imports of raw materials and manufactured intermediates have been reduced. Besides this, the government has attempted to rapidly dismantle quantitative restrictions on imports and exports. It has also undertaken adjustment of exchange rate so as to remove over-valuation of currency. This has helped in stepping up exports.

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

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

(a) Approval would be given for direct investment up to 51 per cent foreign equity in high priority industries as per the Industrial Policy of 1991. Such clearances will be given if foreign equity covers the foreign exchange requirements for imported capital goods.
In December 1996, the cabinet gave its assent to a new list of industries whereby joint ventures with up to 74 per cent foreign equity would be cleared automatically. The basic purpose of this move is to facilitate direct foreign investment in India.

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

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

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

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

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

### 6.2.7 Rationale behind Economic Reforms

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

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

Third, and as a corollary to the above, on account of historical reasons, the government was accustomed to getting its work done the easy way, i.e., by official diktat; its autocratic, ‘power distance’, impersonal style of functioning made it difficult for it ‘connect’ meaningfully with its key managerial personnel and motivate them to effect commercial viability. This was unfortunate, given the fact that there were many highly capable managers within the ranks of the PSUs.
In keeping with the socialistic pattern of functioning, private enterprise had long laboured under the stigma of profiteering at public expense. If the private sector can at all be accused of making money at public expense, it also cannot be denied that it was merely responding in the only way it could, given the monopolistic and monolithic structure installed by the very government that now clamoured for efficiency and productivity in PSUs. In fact, by squandering the opportunities that had been handed to it on a platter, the public sector—not its private sector cousin—was the main culprit for the low productivity, poor return on investment and callous disregard for national priorities such as poverty eradication (job reservation was never more than a mere sop to appease political sentiments, barely scratching the surface of the problem) that had brought the nation to a stage where it had to contend with a series of financial crises, and which badly tarnished its image. On the other hand, the private sector had flourished mightily despite—or perhaps because of—a system that gave it (on a quid pro quo basis, let it be admitted) protection from competition through licensing and other privileges.

It was left to the government of PV Narasimha Rao and his Finance Minister Dr. Manmohan Singh to take the bull by the horns and introduce what is today known as the liberalized regime. By beginning the long-overdue task of revamping the economy in line with global trends, unshackling it from bureaucratic control, lowering trade tariffs and allowing foreign conglomerates into the country, they served notice on a complacent public sector to perform or perish. It was the start of a process whereby several unviable or redundant PSUs went under the hammer or were referred to the BFIR, while the more efficient ones were encouraged to adopt the MOU route that gave them freedom to function on commercial lines, in return for full accountability. Several PSUs that had been ailing under tight government controls, over-staffing and trade union militancy such as NTPC, National Fertilisers and Hindustan Organic Chemical Ltd., immediately took humane but firm measures to effect smart turnarounds that left the critics dumbfounded. Going further, dilution of the policy of sector-wise reservations generally gave both sectors the freedom to establish enterprises where earlier, entry was mutually exclusive. In the final analysis, the long-term health of the economy would depend heavily on how the better PSUs like Indian Oil Corporation (the lone Indian corporate in the Fortune 500 list) and GAIL happen to fare. In weeding out the inefficient PEs and reengineering the good ones, the government can at last concentrate on its real function—governance, support, inspiration and guidance—leaving commercial activity to those better equipped and empowered to undertake it.

Check Your Progress
1. When was a new industrial policy announced in India?
2. What were the main aims of new economic policy?
3. What do you mean by liberalization?
4. List the industries in which industrial licensing is compulsory.
5. Which are the three forms that need to be taken into account in the process of privatization?
6. Why do an economy require liberalization, globalization and privatization?
7. List some of benefits which result in economic reforms.
8. Explain the main parameters of globalization.

6.3 NITI AAYOG

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

Check Your Progress
9. When was the NITI Aayog established?

6.4 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. It was when Mr. Narasimha Rao took over as Prime Minister in 1991 that a new industrial policy was announced, which marked a sharp departure from the earlier industrial policy of 1956.
2. There were three aims of the new economic policy—liberalization, globalization and privatization.
3. The main aim of liberalization was to dismantle the excessive regulatory framework which acted as a shackle on freedom of enterprise. Over the years, the country had developed a system of licence-permit-control raj. The aim of the new economic policy was to save the entrepreneur the unnecessary harassment of seeking permission from the bureaucracy to start an undertaking.
4. The list of industries in which industrial licensing is compulsory is as follows:
   i. Coal and lignite
   ii. Petroleum and its distillation products
   iii. Distillation and brewing of alcoholic drinks
   iv. Sugar
   v. Animal fats and oils
   vi. Cigars and cigarettes
   vii. Asbestos and asbestos-based products
   viii. Plywood and other wood-based products
   ix. Raw hides and skins
   x. Tanned fur-skins
   xi. Paper and newsprint
   xii. Electronics, aerospace and defence equipment
   xiii. Industrial explosives
   xiv. Hazardous chemicals
   xv. Drugs and pharmaceuticals

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

6. Liberalization, globalization and privatization are all means to achieve certain ends of the society just as nationalisation and regulatory frameworks were intended to achieve certain goals. These are:
   1. To achieve a high rate of growth of national and per capita income.
   2. To achieve full employment.
   3. To achieve self-reliance.
   4. To reduce inequality of income and wealth.
   5. To reduce the number of people living below the poverty line.
   6. To develop a pattern of society based on equality and absence of exploitation.

7. There are several benefits with economic reforms. These are:
   i. Higher growth rate
   ii. Control of Inflation
   iii. Reform of the Public Sector
   iv. Large dose of Foreign Capital
   v. The reform process has led to growth of exports
8. It has four parameters:
   (i) Reduction of trade barriers so as to permit free flow of goods and services across national frontiers;
   (ii) Creation of an environment in which free flow of capital can take place;
   (iii) Creation of an environment permitting free flow of technologies among nation-states; and
   (iv) Creation of an environment in which free movement of labour can take place in different countries of the world.

9. It was established in 2015 by the NDA government and is also known as the National Institution for Transforming India (NITI) and is touted as the policy think tank of the central government of India. The main aim of establishing the Niti Aayog was to achieve sustainable development goals and to enhance cooperative federalism by nurturing involvement of State governments in the economic policy-making process.

6.5 SUMMARY

- It was when Mr. Narasimha Rao took over as Prime Minister in 1991 that a new industrial policy was announced, which marked a sharp departure from the earlier industrial policy of 1956.
- The main aim of liberalization was to dismantle the excessive regulatory framework which acted as a shackle on freedom of enterprise. Over the years, the country had developed a system of licence-permit-control raj. The aim of the new economic policy was to save the entrepreneur the unnecessary harassment of seeking permission from the bureaucracy to start an undertaking.
- Privatization in a narrow sense indicates transfer of ownership of a public sector undertaking to private sector, either wholly or partially. But in another sense, it implies the opening up of the private sector areas which were hitherto reserved for the public sector.
- Liberalization, globalization and privatization are all means to achieve certain ends of the society just as nationalisation and regulatory frameworks were intended to achieve certain goals.
- There is general agreement among all political parties that reforms are a historical necessity and it is not possible to reverse the reform process. Even the Left parties, after the collapse of the former Soviet Union, have accepted the view that reforms in the form of liberalization, privatization and globalization will have to be undertaken.
The major aim of economic reforms is to improve the public sector so that the rate of return improves. To remedy the situation, it was necessary that overstaffing of the public sector undertakings be reduced. The government has already taken steps in this direction by its voluntary retirement scheme.

The advocates of globalization limit the definition of globalization to only three components viz., unhindered trade flows, capital flows and technology flows. They insist that the developing countries accept their definition of globalization and conduct the debate on globalization within the boundaries set by them.

The rationale for privatization in various countries can generally be classified under three heads: pragmatism, a commercial point of view, and ideological compulsions.

In keeping with the socialistic pattern of functioning, private enterprise had long laboured under the stigma of profiteering at public expense. If the private sector can at all be accused of making money at public expense, it also cannot be denied that it was merely responding in the only way it could, given the monopolistic and monolithic structure installed by the very government that now clamoured for efficiency and productivity in PSUs.

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

6.6 KEY WORDS

- The licence-permit-control raj: This is a term used to describe the elaborate system of licences in a planned economy. Here all aspects of the economy are controlled by the state and licences are given to a select few.
- MRTP Act: Monopolistic and Restrictive Trade Practices (MRTP) Act, 1969, was enacted, to ensure that the operation of the economic system does not result in the concentration of economic power in hands of few.
- Liquidation: It implies sale of assets to a person who may use them for the same purpose or for some other purpose. This depends solely on the preference of the buyer.
- Leasing: In this arrangement, the government agrees to transfer the use of assets of a public enterprise to a private bidder for a specified period, say five years.
Glasnost and Perestroika: In the former Soviet Union, Mikhail Gorbachev introduced Glasnost and Perestroika (restructuring) which include a massive decentralisation of economic management and decision-making, setting up of prices through competition, allowing private enterprise in selected areas.

6.7 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. Write a brief note on the causes that led to the formation of new economic policy.
2. Enumerate in brief about privatization and its objectives.
3. Explain why public sector undertakings (PSUs) couldn’t achieve their targeted goals?
4. Describe the role of organizational measures in MSME sector.
5. How has the reforms process helped in accelerating growth in India? Explain the statement with relevant references.
6. Explain the role of globalization in India.
7. Write a short note on ‘Making public enterprises competitive and profitable’.

Long-Answer Questions

1. Discuss central government’s role in opening India’s economy.
2. Analyse in detail on the major purpose of liberalizing Indian economy.
3. Discuss the role of restructuring in privatization.
4. “The benefits of growth after reforms have not reached to the poor and weaker sections of the society.” Explain this statement analytically.
5. Write a comprehensive report on Indian government’s effort to reform the PSUs.
6. Analyse the main parameters of globalization.
7. “From nationalization to privatization, India’s economic reforms are on right path.” Explain this statement.

6.8 FURTHER READINGS


UNIT 7  CAPITAL FORMATION

7.0  INTRODUCTION

Capital formation refers to the increase in the stock of real capital in an economy during an accounting period. In other words, it is the creation of things that help us produce more. We commonly use the term in the study of macroeconomics.

We 'form' capital when we use our savings for investment purposes – often investment in production. In other words, the formation of capital occurs when we invest in making things. In this unit, we will discuss the recent trends in capital formation and savings and investments in India.

7.1  OBJECTIVES

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

- Discuss the recent trends in capital formation in India
- Differentiate between human and physical capital
- Understand the trend regarding savings and investment

7.2  CAPITAL FORMATION TRENDS IN INDIA

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

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

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

7.2.1 Human and Physical

Physical capital

Physical capital refers to the assets which themselves have been manufactured and are used for production of other goods and services. In a broader term, physical capital refers to all non-human assets created by humans and used in the production and manufacturing process. Examples of physical capital include machinery and equipment used directly in the production process. Buildings are also classified as physical capital, as long as they are used in business operations. Manufacturing plants that contain all production equipment and facilities, warehouses that contain finished or work in progress products, and even buildings used for administration, accounting, sales, etc. are also referred to as physical capital. Vehicles are also considered physical capital, whether they are used for internal purposes, or are used to transport goods to their final retail destination; as long as the vehicle is used in business operations it becomes physical capital.
Human capital

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

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

7.2.2 Capital Formation: Savings and Investment

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

- **Gross Capital Formation Steadily Improved**: Gross capital formation in the 1950s was as low as 7.8% of GDP. This improved in the following decades with the Five-Year Plans constantly focusing on improving physical stock.

- **Measures of Capital Formation**: Gross capital formation, gross fixed capital formation and gross domestic capital formation are few other definitions to study capital formation. In India, the Central Statistical Organisation provides data on capital formation by institutions and sectors.

- **Savings**: Savings provide necessary means for investment in the economy. Savings rate has improved post-liberalisation to 36% of GDP, which points to rise in economic activity and national income in India. The country currently is among the high-saving economies of the world. However, India’s saving rate is still far lower compared with China’s, which is around 50% of GDP.

- **Contribution to Gross Capital Formation**: Currently, private sector leads in investments in the economy at 37% of total investments. Public investments are around 26% and household investments account for 32%. Public share in investments has fallen over time, which indicates the government’s inability to stimulate investments in the country. The way forward is to boost investments through private-public partnerships that can help India solve its infrastructure problems.
• **Private Investments**: With liberalisation of the economy and a favourable business environment, private sector now leads in investments in the economy. Private investments are largely funded by household savings. Over the years, private savings have also improved, which have further aided private sector capital formation. The private sector, being the biggest contributor to gross capital formation, now has a crucial role to play in leading India’s economic growth.

• **Public Investments**: Public investments have declined as government lacks enough resources to boost investment in a big way. Also, the government’s propensity for dissavings, because of poor expenditure management, has left it with fewer resources to fund investments in the country. As government lacks enough muscle to raise investments further, the private sector and foreign fund inflows have become critical for increasing investment levels in the country.

• **Household Investments**: Household investments account for 32% of total investments. Household includes individuals, non-corporate business bodies, private and charitable institutions such as educational and religious organisations. Therefore, investments by these bodies in terms of physical capacity creations such as on land, buildings, factories, etc, are termed as household capital formation. Household investments are funded by rising household savings. Household savings accounts for nearly 70% of total savings and are the chief source of investments for both private and public investments.

**Key Aspects**

• **Measurement**: Investment activity in an economy refers to addition to physical capital stock. It is measured by gross capital formation. In India, the Central Statistical Organisation provides data on different components of gross capital formation, broadly defined as gross fixed capital formation (GFCF) plus change in stocks. Gross fixed capital formation provides a picture of gross value of goods added to fixed domestic capital stock during a year. GFCF includes plant, machinery, equipment and improvements to land. Change in stocks provides value of inventory and work in progress.

• **Transition since Independence**: Capital formation in the 1950s was low, but it improved in the following decades. Capital formation improved more than four times to a high of 36% of GDP in 2010. With investments rising over the years, India’s economic growth rate reached a high of 9% before the 2008 global crisis. Although all economic growth cannot be attributed to investments, importance of capital formation remains paramount in economic development.

• **Key to Long-Term Growth**: Importance has been laid on capital formation in economic development as it can lead to sustainable long-term growth.
Although capital formation has increased in India since independence to touch 36% of GDP, it still remains below rates achieved in high-growth economies, such as China. Investment levels in China have risen to a high of 50% of GDP, which also underlines the high economic growth it has been able to sustain for the past 25 years.

- **Constraints to Investments**: Another aspect of capital formation that needs mention is constraints to finance it. Investments are typically funded from domestic savings (although foreign capital flows also contribute towards growth in investments). So, inadequate growth in savings rate can be a constraint for investments. Savings rate in China has increased to around 50% of GDP, which makes it possible for the Chinese economy to sustain high levels of investment. China also attracts huge foreign direct investment every year.

- **Only Investment Not Enough**: It is an oversimplification to say high investments can result in long-term high economic growth. There are many economies that initially showed a rapid rise in economic growth through improvement in capital formation, but ultimately slowed down. Examples of Soviet Union in the 1960s and the East Asian experience in the 1980s and 1990s provide evidence that high rates of investments aren’t the only way forward. Investments have to be followed with improvement in productivity. Excess of capital without productivity results in slower growth and also lower returns on investments. Simply put, mobilisation of labour and capital are not sufficient for sustainable high long-term growth. Incremental capital output ratio (ICOR), a critical ratio that measures the amount of incremental capital needed to produce one incremental level of output, is a key measure of capital productivity. ICOR levels in India have remained unchanged at 4.5 in recent years. A lower ICOR is critical to achieve a high rate of growth with a given level of capital formation.

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

Check Your Progress

1. State some examples of physical capital.
2. Define human capital.
3. What are household investments?
7.3 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Few examples of physical capital include machinery and equipment used directly in the production process.
2. Human capital refers to the skills, training, experience, education, knowledge, know-how, and competencies contributed by humans to a business. In other words, human capital can be referred to as the value that is added onto a company by an employee, which can be measured by the employee’s skills and competencies.
3. Household includes individuals, non-corporate business bodies, private and charitable institutions such as educational and religious organisations.

7.4 SUMMARY

- India’s gross domestic product grew an average 9% annually for some years before the global financial crisis of 2008. Between 2004 and 2008, business confidence acquired a swagger and investments increased at a rapid pace.
- India did find a sweet spot between 2004 and 2008, with investments driving growth. Post-crisis, the world has changed. Developed economies haven’t been able to shake off the effects of the economic crisis.
- As soon as growth recovered, euphoria was back. So was bluster about decoupling and how the Indian economy was robust enough to grow despite adverse global conditions.
- Physical capital refers to the assets which themselves have been manufactured and are used for production of other goods and services. In a broader term, physical capital refers to all non-human assets created by humans and used in the production and manufacturing process.
- Human capital refers to the skills, training, experience, education, knowledge, know-how, and competencies contributed by humans to a business. In other words, human capital can be referred to as the value that is added onto a company by an employee, which can be measured by the employee’s skills and competencies.
- Capital formation is addition to productive capacity of the economy. It is also known as investment in national accounting. Terms like capital formation, or additions to physical stock, or investment are synonymous in economic parlance.
• Public investments have declined as government lacks enough resources to boost investment in a big way. Also, the government’s propensity for dissavings, because of poor expenditure management, has left it with fewer resources to fund investments in the country.

• Household investments account for 32% of total investments. Household includes individuals, non-corporate business bodies, private and charitable institutions such as educational and religious organisations.

• Investment activity in an economy refers to addition to physical capital stock. It is measured by gross capital formation. In India, the Central Statistical Organisation provides data on different components of gross capital formation, broadly defined as gross fixed capital formation (GFCF) plus change in stocks.

• Many studies on investment behaviour in India have pointed out that economic growth, rising incomes and economic liberalisation have led to a rise in private investments in India. Public sector investments have lost share in recent years, which is manifest in infrastructure deficit and other bottlenecks to economic development.

7.5 KEY WORDS

• **Incremental capital output ratio (ICOR):** It is a critical ratio that measures the amount of incremental capital needed to produce one incremental level of output. It is a key measure of capital productivity.

• **Gross fixed capital formation (GFCF):** It is a macroeconomic concept used in official national accounts such as the United Nations System of National Accounts (UNSNA), National Income and Product Accounts (NIPA) and the European System of Accounts (ESA).

7.6 SELF ASSESSMENT QUESTIONS AND EXERCISES

**Short-Answer Questions**

1. Differentiate between human and physical capital.
2. Write a short note on private investments.
3. Briefly state the transition in capital investments since independence.

**Long-Answer Questions**

1. Analyse the theory and trends of savings and investment in India.
2. Discuss the key aspects of savings and investment.
3. Describe the capital formation trends in India.
7.7 FURTHER READINGS


UNIT 8 NATIONAL INCOME

8.0 INTRODUCTION

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

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

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

Since there is a chain-relationship between the different aggregate income and product concepts, after analysing the role of the gross national product (GNP), net national product (NNP), national income (NI) and other related macroeconomic concepts, it is easy to compute the value of one aggregate economic variable from that of the other.

This unit carries an in-depth analysis about the various concepts and methods to explain what contribute to national income.

8.1 OBJECTIVES

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

- Define national income and its significance
- Understand the concept of national income
- Explain those productive activities that are not part of national income
- Enumerate the meaning of personal income and disposable personal income
- Understand the concept of national product
- Figure out Gross National Product (GNP)
- Discern the meaning and importance of Net National Product (NNP)
- To understand the relationship between national income and product

8.2 CONCEPT, METHODS AND RECENT TRENDS

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

The definition of national income links income with production or economic activity in the economy. Thus, from the national point of view what is important is the income earned by the nationals of a country by undertaking the productive services. In other words, corresponding to the factor incomes there is the counterpart production of goods and services which represents the manifold economic activities undertaken on the part of input owners or factors of production.

Thus, while for an individual his entire money receipts during any given period of time are his money income, from the macroeconomic point of view, such money receipts will be included in the national income only if these have been earned by the individual during that time period, i.e., if the individual has engaged himself in the productive activity to earn that income. For example, a man may have received income in the form of gifts or transfer receipts from other individuals, business
National Income

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

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

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

Apart from excluding the transfer receipts and capital gains from national income, any reasonable definition of national income must provide for the depreciation or capital consumption allowance considered necessary to maintain the economy’s total capital stock intact. If a part of an individual’s capital assets is consumed during the process of income earning, his total earnings are not his net earnings because a portion of his total earnings must be set aside to provide for the replacement of the depreciated capital assets failing which the individual’s earning capacity in the future will diminish. In this respect, what is true of an individual is also true for the economy as a whole. Thus, the definition of national income
National Income

should allow for capital consumption allowance. Since national income is simply the aggregate of factor earnings, it excludes capital consumption allowance, government, business and individual transfer payments which are receipts in the hands of factor owners and indirect taxes (net of government subsidies, if any) from the money value of the final goods and services calculated at the market price.

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

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

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

8.2.1 Personal Income and Disposable Personal Income

Since both these concepts are related to national income, it is convenient to explain these here. Personal income may be defined as the current income of persons or households derived from all sources. Personal income is not, however, a correct measure of the current economic activities which are represented by the production of goods and services in the economy since it includes several items which are not related to the current production of goods and services and excludes certain items which are related to the current production of goods and services in the economy. In other words, it includes both the earnings from the productive services (economic activities) and the receipts against which no productive services have been rendered. Personal income is, therefore, obtained from national income by subtracting from the national income that part of it which is earned but is not received by the persons and by adding to it those personal receipts which are derived from sources which
are not included in the national income. Thus, in order to derive personal income from the national income, we should deduct from it the undistributed corporate profits, tax, employers’ and employees’ contributions to social insurance and add to it the government and business transfer payments, net interest paid by the government, interest paid by consumers and the dividends distributed by the corporate business sector to the shareholders.

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

### 8.2.2 Concept of National Product

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

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

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

\[
\text{Gross National Product} = \text{Gross Domestic Product} + \text{Exports} - \text{Imports} \\
\text{GNP} = \text{GDP} + (X - M); \quad \text{and} \\
\text{Net National Product} = \text{Net Domestic Product} + \text{Exports} - \text{Imports} \\
\text{NNP} = \text{NDP} + (X - M)
\]

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

National product is gross or net. Gross national product (GNP) is the total output of the final goods and services produced during any given period of time by the residents of a country. The total output of final goods and services consists of the consumption and capital goods. However, the entire total output of new capital goods does not represent net increase in the capital stock (production potential) of the economy. A part of the total output or production of new capital goods is consumed in replacing the economy’s existing capital stock consumed during the process of production of the final goods and services. Consequently, only a part of the total output of new capital goods represents a net increase in the economy’s capital stock, i.e., net investment or capital formation. Net national product (NNP) is, therefore, the total output of consumer goods plus the net increase in the economy’s total capital stock—production of new capital goods in excess of the replacement of the depreciated capital goods during any given period of time. In other words, the net national product (NNP) is equal to the output of consumer and government goods plus net investment in the economy during any given period of time.

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

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

8.2.3 Importance of Gross National Product (GNP)

Gross national product (GNP) estimates enable the economists to analyse the
overall performance of an economy. The usefulness of the GNP as a tool for
analysing the aggregate performance of an economy both over the short period
and the long period can be illustrated by the means of two examples. First, with
the help of the GNP estimates it is possible to measure the performance of an
economy over time by comparing the GNP of one time period with that of the
other. Thus, the growth of the GNP over time tells us that the economic performance
of the nation has been steadily improving over time. For example, if it is found that
the total money value (at constant prices) of all the final goods and services produced
in India during 2009 is 25 per cent higher than it was in 2008, it can be easily
deduced that the real gross national product in 2009 has recorded an increase of
25 per cent compared with the gross national product in 2008. On the other hand,
if the prices in 2009 were 25 per cent higher compared with those in 2008, the
GNP in real terms will show no change because the increase of 25 per cent in the
money value of the GNP in 2009 was entirely due to the price rise.

Estimates of the gross national product can also be used for analysing changes
in the total purchases which are needed to ensure the maximum level of aggregate
output in the economy. For example, consider the Indian economy in which the
final goods and services valued at ₹ 2,000 crore have been sold during 2009. A
survey is made of country’s total labour force and capital resources which shows
that only 80 per cent of the country’s total available labour force and capital
resources were employed to produce these goods and services. An additional
output of the final goods and services worth ₹ 500 crore could have been produced
had the labour and capital been fully employed in the economy. This estimation
furnishes the basis for determining one of the requirements for obtaining the maximum
output of goods and services in the economy. Either the total money purchases
should be ₹ 500 crore higher (prices remaining unchanged) in order to induce the
entrepreneurs to produce the additional potential output of goods and services for
which the necessary inputs are available in the economy or the general price level
National Income

should fall by 20 per cent to enable the full employment output to be sold out with
the existing total money supply in the economy. It is, therefore, obvious that the
GNP estimates furnish us with an overall picture of the level and the rate of change
of the aggregate economic activity in the economy. These estimates tell us about
the goods and services which are being produced with the economy’s total
resources and the uses to which the total output of goods and services is being
put.

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

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

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

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

<table>
<thead>
<tr>
<th>Table 8.1 Relationship Between Different Related Macroeconomic Concepts</th>
<th>(Rupees crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minus Gross National Product (GNP) Measured at the Market Price</td>
<td>500</td>
</tr>
<tr>
<td>Minus Capital Consumption Allowance (CCA)</td>
<td>50</td>
</tr>
<tr>
<td>Equals Net National Product (NNP) Measured at the Market Price</td>
<td>450</td>
</tr>
<tr>
<td>Minus Indirect Business Taxes</td>
<td>50</td>
</tr>
<tr>
<td>Minus Business Transfer Payments</td>
<td>10</td>
</tr>
<tr>
<td>Minus Current Surpluses of Government Enterprises</td>
<td>15</td>
</tr>
<tr>
<td>Plus Government Subsidies</td>
<td>25</td>
</tr>
</tbody>
</table>

NOTES
### National Income

<table>
<thead>
<tr>
<th>Equation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Income (NI)</td>
<td>Equals National Income (NI)</td>
</tr>
<tr>
<td>Minus</td>
<td>Undistributed Profits</td>
</tr>
<tr>
<td>Minus</td>
<td>Profits Tax</td>
</tr>
<tr>
<td>Minus</td>
<td>Employers’ Contributions for Social Insurance</td>
</tr>
<tr>
<td>Minus</td>
<td>Employees’ Contributions for Social Insurance</td>
</tr>
<tr>
<td>Plus</td>
<td>Government Transfer Payments to Persons</td>
</tr>
<tr>
<td>Plus</td>
<td>Business Transfer Payments</td>
</tr>
<tr>
<td>Plus</td>
<td>Net Interest Paid by Government</td>
</tr>
<tr>
<td>Plus</td>
<td>Interest Paid by Consumers</td>
</tr>
<tr>
<td>Equals</td>
<td>Personal Income (PI)</td>
</tr>
<tr>
<td>Minus</td>
<td>Personal Taxes (T_p)</td>
</tr>
<tr>
<td>Equals</td>
<td>Disposable Personal Income (DPI)</td>
</tr>
<tr>
<td>Minus</td>
<td>Personal Saving (S_p)</td>
</tr>
<tr>
<td>Equals</td>
<td>Personal Outlays (PO)</td>
</tr>
</tbody>
</table>

#### Notes

In other words,

\[
NIP = GNP - (T_p + T) + \text{Transfer Payments} + \text{Employers' Contributions for Social Security Insurance} + \text{Net Interest Paid by Government} - \text{Interest Paid by Consumers}
\]

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

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

A significant fact brought out from these relationships is that the estimates of net national product calculated at the unit factor cost of production and those of the national income are identical. In other words, net national product calculated at the unit factor cost of production and national income are identical macroeconomic concepts. From this, it also follows as a corollary that the gross national product equals the national income plus capital stock’s depreciation in a simple economy where the market price equals the factor cost of production per unit of output.

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

\[
\text{National Income} = \text{Net National Income} = \text{Expenditure Incurred on Net National Product}
\]

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

\[
\text{National Income} + \text{Capital Allowance} = \text{Gross National Income} = \text{Expenditure Incurred on Gross National Product}
\]

**8.2.5 National Income and Product in a Simple Market Economy**

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

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

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

The flow of aggregate outlay on the new capital goods is on a different footing. Funds for spending on capital goods come either from the accumulated past savings of the entrepreneurs or from savings, past or current, of others which are borrowed by the entrepreneurs or from the funds made available by banks out of the created new money. Whatever may be the source of supply of such investible funds, it is significant to realize that this spending flow is added to the aggregate flow of consumer spending to constitute the aggregate spending flow in the economy shown on the left-hand side of the diagram.
The flow from the business sector to individuals (households) is the national income while the return flow from the individuals (households) to business sector is the consumer spending flow. The flow of total consumer spending will be smaller compared with the flow of national income to the extent of personal saving. To get at the aggregate flow of spending in the economy, we should add to the flow of aggregate consumer spending the total flow of investment spending made by the business sector. The composite consumption and investment (gross) spending flow represents the gross national product (GNP).

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

\[
\begin{align*}
\text{GNP} &= C + GI \\
\text{NI} &= \text{GNP} - D \\
\text{NI} &= C + S
\end{align*}
\]

By substituting equation (8.3) into equation (8.2) and after rearranging, we get

\[
\text{GNP} = C + S + D
\]

By comparing equations (8.4) and (8.1), we get

\[
\text{GNP} = C + S + D = C + GI
\]

By substituting equation (8.1) into equation (8.2), we get

\[
\text{NI} = C + GI - D
\]

or

\[
Y = C + I
\]

where

\[
I = GI - D
\]

By comparing equations (8.3) and (8.8), we get

\[
\text{NI} = C + S = C + I
\]

or

\[
C + S = C + I
\]

therefore,

\[
S = I
\]

In the above equations:

GNP denotes gross national product;
C denotes aggregate consumer spending;
NI denotes national income;
GI denotes gross investment;
I denotes net investment;
S denotes aggregate personal saving; and
D denotes depreciation or capital consumption allowance.
To bring the above hypothetical simple market economy nearer to the real world economy, government purchases, imports, exports and change in inventories will have to be added to the aggregate expenditure and income flows in the diagram. As a result of these added flows, although the diagram will become complicated, it will not, however, change the fundamental shape of the diagram. Further, as a result of the inclusion of the corporate form of business enterprises in the business sector, the income arising in the business sector will be channelled out into individual and corporate incomes. It will, however, not affect the analysis in any fundamental manner.

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

8.2.6 Recent Trends
The Second Advance estimates of national income for the year 2016-17 were in 2017. The salient features of these estimates are detailed below:

Estimates at current prices

1. **GDP** at current prices in the year 2016-17 is estimated at ₹ 84 lakh crore, showing a growth rate of 11.0 percent over the estimates of GDP for the year 2015-16 of ₹ 136.82 lakh crore.

   - The sectors which registered growth rate of over 9.0 percent and above at current prices are ‘agriculture’, ‘manufacturing’, ‘trade, hotels, transport, communication and services related to broadcasting’, ‘financial, real estate and professional services’, and ‘public administration, defence and other services’.

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

<table>
<thead>
<tr>
<th>Year</th>
<th>At Current Prices (In Rs. crore)</th>
<th>At Constant Prices (In Rs. Crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>GDP</td>
<td>GDP growth rates (%)</td>
</tr>
<tr>
<td>Old Series</td>
<td>New Series</td>
<td>Old New</td>
</tr>
<tr>
<td>2011-12</td>
<td>₹ 87,603,903</td>
<td>₹ 87,683,29</td>
</tr>
<tr>
<td>2012-13</td>
<td>₹ 99,486,803</td>
<td>13.9 13.8</td>
</tr>
<tr>
<td>2013-14</td>
<td>₹ 11,386,803</td>
<td>13.0 13.0</td>
</tr>
<tr>
<td>2014-15</td>
<td>₹ 124,357,491</td>
<td>10.7 10.8</td>
</tr>
<tr>
<td>2015-16</td>
<td>₹ 136,753,311</td>
<td>10.0 9.9</td>
</tr>
</tbody>
</table>
2. **National Income**
   - The GNI at current prices is estimated at ₹ 149.94 lakh crore during 2016-17, as compared to ₹ 135.22 lakh crore during 2015-16, showing a rise of 10.9 percent.

3. **Per Capita Net National Income**
   - The per capita income at current prices during 2016-17 is estimated to have attained a level of ₹ 103,219 as compared to the estimates for the year 2015-16 of ₹ 94,130 showing a rise of 9.7 percent.

**Check Your Progress**
1. What do you mean by national income (NI)?
2. What role does national income play in macroeconomic theory and accounting?
3. Is every transfer of money counted as income?
4. From where is disposable personal income derived?
5. What do you mean by national product?
6. Explain the relationship between the gross and net national product and the gross and net domestic product.
7. Enumerate the concept of Net National Product (NNP).
8. Explain the relationship between national income and product in the real world economy.

**8.3 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS**

1. National income is the aggregate of all those individuals’ earned incomes who are residents of the country. It links income with production or economic activity in the economy. In brief, national income is the aggregate of the (i) wages and salaries, including supplements thereto (without deducting taxes and social security contributions); (ii) net income received from rents and royalties; (iii) income received from interest; and (iv) profits, whether earned by the corporate or non-corporate private business sector before deducting the income-tax.

2. The concept of national income is very important in macroeconomic accounting and theory. In deciding whether or not individual or personal income should be included in the national income or product, the appropriate question to be answered is the income received by an individual the payment for some work done by him? If the answer is ‘yes’, it should be included in the national income, otherwise not. Unless the transfer of money also involves
the exchange of the productive services, it will not be counted as income from the macroeconomic point of view.

3. National income is the aggregate of individuals’ incomes excluding transfer receipts or payments. The logic behind not including the transfer payments in the national income and product accounts is that these receipts do not have their counterpart in the form of current economic activities embodying the production of goods and services in the economy although these are part of the income of the personal or household sector and have to be added in deriving the personal income.

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

5. In dealing with the concept of national product, we should distinguish between its gross and net variants. Moreover, it must also be explained that there is a distinction between national product and domestic product. National product, like national income, is a flow concept. It can be defined as the total output of final goods and services produced by the nationals or residents of a country acting in their roles as factors of production during any given period of time, say in one year.

6. In order to derive the national product from the domestic product, we must deduct from the domestic product the value of that part of the domestic product which represents the productive activities of the foreigners and add to it the value of the product raised by the nationals of the country outside the geographical limits of the economy, i.e., abroad. However, both the national product and domestic product are flow concepts. National product is gross or net. Gross national product (GNP) is the total output of the final goods and services produced during any given period of time by the residents of a country.

7. Net national product (NNP) is the total output of consumer goods plus the net increase in the economy’s total capital stock—production of new capital goods in excess of the replacement of the depreciated capital goods during any given period of time. In other words, the net national product is equal to the output of consumer and government goods plus net investment in the economy during any given period of time.

8. To understand the relationship between national income and product in the real world economy, it might be fruitful to consider this relationship in a simple free market enterprise economy with no government. The total production in the economy takes place in the business sector consisting of the proprietorship firms so that the net income of a firm is not different from the personal income of its owner.
8.4 SUMMARY

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

- Unless the transfer of money also involves the exchange of the productive services, it will not be counted as income from the macroeconomic point of view. In fact, income may be earned without involving any transfer of money. For example, in the case of subsistence farming, income is earned without involving any money payment.

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

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

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

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

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

- National product or income estimates also serve as significant indicators of the economic prosperity of a nation. Ceteris paribus, a higher national income means the availability of more goods and services in larger quantities which with a given population would mean higher per capita income.
• The most important relationship between the national product and income concepts is the relationship between the three macroeconomic variables of the gross national product (GNP), net national product (NNP) and national income (NI).

• Although a real world economy is much more complex than the simple market economy, it is nevertheless useful in pure economic theory to assume an economy with no government and no corporate business sector. Such an economy has simple accounts and the net national product, national income and disposable income are all identical.

8.5 KEY WORDS

• Capital gains: This refers to profit that results from a sale of a capital asset, such as stock, bond or real estate, where the sale price exceeds the purchase price. The gain is the difference between a higher selling price and a lower purchase price.

• Capital Consumption Allowance (CCA): Capital Consumption Allowance (CCA) is the portion of the gross domestic product (GDP) which is due to depreciation. CCA measures the amount of expenditure that a country needs to undertake in order to maintain its productivity.

• Net national product (NNP): This refers to gross national product (GNP), i.e. the total market value of all final goods and services produced by the factors of production of a country or other polity during a given time period, minus depreciation.

• Capital stock: Total amount of a firm’s capital. All the shares that a company has and is officially allowed to sell.

8.6 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. Write a brief note on national income
2. Describe the differences between personal income and disposable personal income.
3. Explain the meaning and concept of Gross National Product (GNP).
4. Enumerate the role of net national product.
5. Explain in brief the relationship between national income and product in the market economy.
Long-Answer Questions

1. Discuss the various concepts of national income.
2. Analyse the role of gross national product in the performance of an economy.
3. Discuss the relationship between the gross and net national product and the gross and net domestic product.
4. Analyse the relationship between three macroeconomic variables of the gross national product (GNP), net national product (NNP) and national income (NI).

8.7 FURTHER READINGS


UNIT 9  HUMAN RESOURCES

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

Census was started to exactly know the population and is now done systematically once in a decade. The year 1951 was a landmark in the history of census operation in India as this was the first census in the free India. During the 20th century, India’s population increased nearly 5 times from 23 crore to 100 crore, while during the same period world’s population increased nearly 3 times from 200 crore to 600 crore. Several factors like early marriage, low literacy among women have added to population growth.
Like all developing countries, despite economic planning and progress, the expected development and prosperity couldn’t happen in India on account of the growing population. India’s National Population Policy envisions a balanced population so that the country will develop the maximum and each individual of the country lives in a satisfactory socio-economic environment. It has set the target of achieving zero growth rate of population by 2045. Needless to say, the broad-based policy requires convincing and positive measures. It exhibits the government’s concern for the rapid growth of population and its stabilization from the long-term perspective. At the same time, it lays emphasis on both the qualitative and quantitative aspects of population.

This unit brings to the fore the festering problem of overpopulation in India and details about the remedial measures to stabilise it with various population policies started by the government.

9.1 OBJECTIVES

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

- Understand the unequal population growth in rural and urban areas in India
- Get an insight into distribution of population according to age and sex
- Know about population projection and its uses
- Understand the demographic scenario of population growth
- Explain the various factors of population growth in India
- Understand Population Policy and its objectives
- Analyse the impact of overpopulation
- Enumerate national socio-demographic goals
- Evaluate India’s national population policy

9.2 POPULATION GROWTH: AN OVERVIEW

Like many other third world countries, the urban population of the country is increasing very slowly. Despite the growing migration from rural to urban areas, the population living in the urban areas is only 25 to 30%. The increase in the urban population from 1901 to 1991 has only been 15%, i.e., the increase of population from 10.8% to 25.8%.

Table 9.1 Rural Urban Population (1999)

<table>
<thead>
<tr>
<th>Area</th>
<th>Percentage of Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td>72%</td>
</tr>
<tr>
<td>Urban</td>
<td>28%</td>
</tr>
</tbody>
</table>

In developed countries, at the most, two-thirds of the population lives in the cities. In the last decade India has undergone rapid urbanisation; its urban population
Migration from rural areas to urban areas is increasing every year. In earlier days the maximum migration was towards Tripura, followed by Delhi. Lower migration was observed in the states of Rajasthan, Madhya Pradesh, Bihar and Uttar Pradesh. The high rate of migration in Assam is due to industrialisation. In India, female migration is greater than male migration because after marriage women migrate to their husband’s place.

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

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

### Table 9.2 Percentage Distribution of Projected Population by Age and Sex, 1996–2016, India

<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>M</td>
<td>F</td>
<td>P</td>
<td>M</td>
</tr>
<tr>
<td>0-4</td>
<td>12.6</td>
<td>13.0</td>
<td>10.6</td>
<td>10.8</td>
</tr>
<tr>
<td>5-9</td>
<td>13.2</td>
<td>13.3</td>
<td>11.3</td>
<td>11.6</td>
</tr>
<tr>
<td>10-14</td>
<td>11.9</td>
<td>11.5</td>
<td>12.1</td>
<td>12.1</td>
</tr>
<tr>
<td>15-19</td>
<td>9.9</td>
<td>9.5</td>
<td>11.0</td>
<td>10.5</td>
</tr>
<tr>
<td>20-24</td>
<td>8.6</td>
<td>9.0</td>
<td>9.1</td>
<td>8.7</td>
</tr>
<tr>
<td>25-29</td>
<td>7.8</td>
<td>8.5</td>
<td>7.9</td>
<td>8.2</td>
</tr>
<tr>
<td>30-34</td>
<td>7.0</td>
<td>7.2</td>
<td>7.2</td>
<td>7.7</td>
</tr>
<tr>
<td>35-39</td>
<td>6.2</td>
<td>6.0</td>
<td>6.4</td>
<td>6.6</td>
</tr>
<tr>
<td>40-44</td>
<td>5.3</td>
<td>5.0</td>
<td>5.6</td>
<td>5.8</td>
</tr>
<tr>
<td>45-49</td>
<td>4.4</td>
<td>4.2</td>
<td>4.7</td>
<td>4.7</td>
</tr>
<tr>
<td>50-54</td>
<td>4.6</td>
<td>4.3</td>
<td>3.9</td>
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<tr>
<td>55-59</td>
<td>2.9</td>
<td>2.8</td>
<td>3.1</td>
<td>3.0</td>
</tr>
<tr>
<td>60-64</td>
<td>2.4</td>
<td>2.4</td>
<td>2.4</td>
<td>2.4</td>
</tr>
<tr>
<td>65-69</td>
<td>1.7</td>
<td>1.8</td>
<td>1.9</td>
<td>1.9</td>
</tr>
<tr>
<td>70-74</td>
<td>1.3</td>
<td>1.2</td>
<td>1.3</td>
<td>1.3</td>
</tr>
<tr>
<td>75-79</td>
<td>0.5</td>
<td>0.5</td>
<td>0.8</td>
<td>0.8</td>
</tr>
<tr>
<td>80+</td>
<td>0.8</td>
<td>0.8</td>
<td>0.6</td>
<td>0.6</td>
</tr>
<tr>
<td>All</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>


**Key:** M: Male; F: Female; P: Population.
Table 9.2 delineates the distribution of population according to age and sex based on projections made in 1996. The table shows that the percentage of population below the age of 5 would decline from 10.6% in 1996 to 9.7% in 2016. Conversely, the population of ages 20-24, 25-29 and 30-34 would increase from 9.1, 7.9, 7.2 in 1996 to 9.1, 9.6 and 8.5 in 2016 respectively. As the ages 20-24, 25-29 and 30-34 are considered the most productive in an individual’s life, it has been predicted that India would face a demographic dividend in the early part of the 21st century.

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

9.2.1 Population and Demographic Projections

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

9.2.2 Population Projection in India

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

In 1996, before the formulation of the 9th plan, the Planning Commission had constituted a technical committee for population projections for the country for the period 1996 to 2016.
9.2.3 Demographic Scenario: Past, Present and Future Challenges

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

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

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

(i) The pre-modern period (before 1881)
(ii) The modern period (after 1881 till date)

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

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

In the modern period, the growth of population was rapid at certain points and declining or stagnant at some other points. The first census was conducted in India in 1881; it had many shortcomings. Many areas were left out in this census. In 1901 while census operations were made, all the left-out territories in the earlier census were covered. Till 1931 census was done as a ‘one night affair’. Since 1941, the system of census has changed to the present style. The history of population growth in India since 1891 can be divided into three parts:

1. 1901–1921
2. 1921–1951
3. 1951–1991
The year 1921 was referred as the year of the ‘great divide’ as it distinguished the population growth from a lesser speed to greater speed. It is a well-known fact that during the period of 1901-1921 there were lot of famines and contagious diseases which were the main reasons for the decline of the population during this period. During this period, India’s population increased from 236 million to 251 million. This was the period when the mortality period was higher than the fertility rate.

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

### 9.2.4 Causes of Growing Population in India

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

![India Population Increase](http://en.wikipedia.org/wiki/File:India_population_increase.GIF)

**Fig. 9.1 India Population Increase**

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

9.2.5 Demographic Factors

1. Gap between Birth Rate and the Death Rate

Today, the rate at which development is taking place is very fast. The changing social circumstances and the advancement of science and technology have given a long life to human beings. In other words, the mortality rate has considerably decreased and the life span has increased. Though it is a healthy sign of development, but the other component of the population, namely, the birth rate, is still very high in the country.

2. Early Age of Marriage

Reproductive behaviour starts from marriage. Marriage is the permission for the sexual activity in Indian society. Though there are premarital sexual activities, they are prohibited, as the culture does not permit them. A young age at the time of marriage is one of the causes of high fertility in India which, in turn, is the cause of the growing population. N.C. Das, in his study, observes that women marrying between the age of 20 and 24 have the same fertility rate as those who marry before 20. A woman who marries after 25 has low fertility behaviour. Table 9.5 shows the average age of marriage for males and females in India from 1891 to 1991. The table shows that the average age of marriage for females in India was only 12.54 years in 1891. This was because the practice of child marriage was rampant in the country. After Independence, many social programs were undertaken to stamp out the practice of child marriages. It had a modicum of success. The average age of marriage for females increased to 17 by 1971. However, today, the average age of marriage in India for women is still 19 years. As a result, the reproductive behaviour of Indian women is still very high.

The legal age of marriage in India is 18 years for females and 21 for males. It is estimated that in our country 26% of the females marry at the age of 15 and 54% marry before they reach 18 years. Adolescent marriages are high in Bihar, Rajasthan, Manipur and Goa.

3. Fertility Rate

It is understood that in India most childbirths occur during the age of 15–19 years. Fertile union starts with the age of effective marriage and it continues up to death. Other causes of stoppage of fertility are separation, crossing of the maximum fertile age, which is considered as 50 years, etc. The fertility of the female is an important factor affecting reproduction and consequently increasing the population. According to Prof. Visaria, the general fertility rate should be reduced significantly.
4. High Reproductive Age Group

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

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

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

5. Economic Factors

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

6. Predominance of Agriculture

It is a well-known fact that more than 70% of the Indian population lives in rural areas and is engaged in agriculture directly or indirectly. From the beginning of the last century the pattern of agriculture has been the same. Occupational distribution is almost a permanent feature in India. In rural India, every child is considered an asset as he/she is a free farm labourer. It is for this reason that in agrarian societies children are not considered an economic burden. So agricultural families prefer bigger families with more children. On the contrary, in industrial societies, as parents have to support the children, they prefer small families and thus the number of children is usually less.

7. Occupation and Fertility

It is observed that white-collar workers have fewer children than blue-collar workers. Likewise, in those families where the wives are also white-collar workers, fertility behaviour is positive in nature. As mentioned above in the rural areas where
people are mostly engaged in skilled jobs, the size of the family is large as compared to their counterparts in the urban areas.

8. Slow Urbanisation Process

The urban population in India is very low when compared to European countries. In European countries almost 70% of the population lives in urban areas whereas in India even after 57 years of Independence, only 25.7% of the population lives in urban areas. In 1951, only 17.62% lived in urban areas. Thus, the pace of urbanisation is very low in India. Those who are living in the rural areas have an access to technology and knowledge. Though there are many demerits in living in the urban areas they are aware of the importance of the small families and the importance of children in modern society. Upbringing of children in cities is difficult. In the villages children grow on their own whereas, in the cities, every stage is difficult as competition is very high. The cost of living is high in the cities and this reinforces the parents to think before they go for the ‘next’ child. In the countries where urbanisation is more, the fertility rate is low whereas in the non-industrialized areas, the fertility rate is high.

9. Income and Fertility

Many studies reveal that the number of children born per couple decreases with the increase in the per capita monthly income or expenditure of the household. This phenomenon is seen both in the urban and in the rural areas. A better income to the family provides a better lifestyle and therefore parents do not want to take any risk by producing more children, thereby destroying the atmosphere of the family.

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

9.2.6 Educational Factors

Illiteracy is widespread in India. According to the 1991 census, 47.89% of the population is illiterate in India. The level of illiteracy is very high in India, as compared to other countries. The rate of female literacy is very low here. The percentage of female literacy is 39.42% and 63.86% for men. Female literacy rate is more concentrated in urban areas. Female illiteracy is more in the northern states, namely Uttar Pradesh, Bihar, Rajasthan and Madhya Pradesh. In India, almost all the scientists and planners agree that only education can change the attitude of the people, especially towards the composition of family and the components of the family like marriage, girl child, size of the family, etc.
Education brings about a total change in the personality of an individual. If both the couples are educated the perception towards marriage and family is positive in nature and which helps the couple to plan the family. A few years of formal schooling bring a perceptible change in the reproductive behaviour. Thus, there is a causal relationship between education and fertility behaviour.

Education is capable of changing the minds of people in two ways. Firstly, it changes the attitude of the people. Secondly, it gives an awareness regarding hygiene, diseases, etc. Education influences both the parents and the children. A higher level of education is correlated to higher age of marriage, small family size, wide spacing between the children, etc. Studies have revealed that the mother’s education is more strongly correlated with the couple’s fertility intentions than the education of her spouse. If the mother’s education has reached secondary and higher levels, the impact is greater. Children’s education also affects the fertility behaviour. When the parents have high aspirations towards children’s education, the size of the family tends to be smaller than in families where the parents do not plan their children’s education properly.

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

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

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

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

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

2. Universality of Marriage

Marriage is both a religious and social phenomenon in India. There is a belief that the marriage of a daughter at a suitable age according to religious sanctions makes the marriage universally acceptable. According to statistics, presently in India by the age of 50, only 5 out of 1,000 Indian women remain unmarried. The average age of marriage is also very low in India as compared to other developed countries. Dr. Chandrashekar says that ‘…everyone in India, sooner or later usually sooner, gets married. Marriage is not merely a necessary social institution but a quasi-religious duty … spinsters and bachelors are a rare phenomenon in India and nearly every adult male and female in the country participates in reproduction.’

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

3. Ignorance and Superstition

It is believed that children are a God-given gift. Superstitions are so strong in India that marriage is the main institution where the belief system influences the maximum. Sons are considered religious, social and economic resources. Manu’s law has influenced every person in India irrespective of region and religion. Although various religious groups have their own rules and regulations regarding marriage and size of the family all the religions favour universality of marriage and necessity of bearing children.

4. Joint Family System

The joint family system is one of the convenient systems for bringing up the children. In the traditional joint family system, children are considered as the common property and the parents never care of their children. Children grow on their own
or all the adults have equal responsibility in taking care of the children. As difficulties are not experienced by parents in bringing up the children, planning of the family is seldom done. There is a kind of social insurance in a joint family for the children and the adults. Hence, the population in a joint family is not a problem at all. In traditional India, marriage was the only function for women, thus the parents and the girl looked forward to these functions. As soon as the girl attained puberty, parents gave her in marriage. Another reason was that in earlier days when the mortality rate was high, people did not want to stop the family size. This also added to population growth. Prof. Jayasurya points out, ‘In a society which practised agriculture of the traditional type, a large number of children was an advantage. Even if a few of them did not survive beyond 10 or 12, they fulfilled at these and younger ages as well, certain functions of economic nature, such as tending cattle or sheep, or carrying out simple tasks in the field.’

5. Status of Women

Today, the majority of women are aware of the small family norm. Working women prefer fewer children and follow this norm. In the traditional society, the status of women depended on the number of children. In fact, the number of male children counted to determine the status of the mother. Even today in India, a childless mother is looked down upon by society. Other social causes are infant mortality and absence of sex education.

Check Your Progress

1. What per cent of the population is living in urban areas in India?
2. List the types of cities divided by Indian census on the basis of population.
3. What do you understand by population projection?
4. List the factors that need to be taken account for understanding the demographic scenario of population growth.
5. While assessing the population growth, which year was referred as the year of ‘great divide’?
6. List some of the causes for growing population in India.
7. How do you think that fertility rate is an important factor for population growth?
8. Explain why population increase is a burden on the country.

9.3 POPULATION POLICY 2010

9.3.1 Population Policy in India

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

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

Between 1916 and 1947, many events related to population occurred. In 1925, the first Family Planning Clinic was opened in Bombay by R.D. Karve. The same year Rabindranath Tagore wrote, ‘I am of the opinion that the birth control movement is a great movement, not only because it will save women from enforced and undesirable maternity, but also because it will help the cause of peace by lessening the number of surplus population of the country, scrambling for food and space outside its own rightful limits. In a hunger-stricken country like India, it is a cruel crime to thoughtlessly bring more children into existence than can be properly taken care of, causing endless sufferings to them and imposing a degrading condition upon the whole family.’ Then, the Mysore Government took the first step in opening the first Government Birth Control Clinic in the world. In 1931, the senate of the Madras University accepted the proposal to impart instructions regarding the methods of conception control. In 1935, the Indian National Congress set up a national committee under the chairmanship of Jawaharlal Nehru and gave the following recommendations:

1. We agree with the view that the size of the Indian population is a basic issue in national economic planning, in so far as its unrestricted increase of proportion to means of subsistence, affects adversely the standard of living, and tends to defeat many social ameliorative measures. The problem has been fundamentally caused by the lack of all-round co-ordinated economic development. While measures for the improvement of the quality of the population and limiting excessive population pressure are necessary, the basic solution of the present disparity between population and standard of living lies in the economic progress of the country on a comprehensive and planned basis.
2. In the interest of social economy, family happiness and national planning, family planning and limitation of children are essential: and the state should adopt a policy to encourage these. It is desirable to lay stress on self-control as well as to spread knowledge of cheap and safe methods of birth control. Birth control clinics should be established and other necessary measures taken in this behalf to prevent the use or advertisement of harmful methods.

3. We consider raising the eligibility of the marriage age and the discouragement of polygamy is desirable in the interests of the limitation of the size of the family.

4. Programmes should include the sterilization of persons suffering from transmissible diseases of a serious nature, such as insanity or epilepsy.

5. The maintenance of vital statistics and the carrying out of periodic demographic surveys on comprehensive lines are necessary; and appropriate machinery should be devised for the purpose.

This was a historical recommendation for the country. In 1940, P.N. Sapru successfully moved a resolution in the Council of States for the establishment of birth control clinics. The Indian Independence Movement was in full swing during this time and several opinions came from the leaders regarding birth control, population control and economic development. Gandhiji was the most important person at that time and he was against the artificial means of birth control. He advocated moral standards to control births. He emphatically declared that ‘There can be no two opinions about the necessity of birth control. But the only method handed down from ages past is self-control or brahmacharya. It is an infallible sovereign remedy doing good to those who practise it. The union is meant not for pleasure but for bringing forth progeny.’ After independence, population growth got a new direction.

9.3.2 National Population Policy, 2000

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

It seems difficult to maintain a balance to conserve the resource endowment and environment in the country with 1.55 crore current annual increase in population, hence there is an urgent need to stabilize population. The basic goal of this policy is to cover various issues of maternal health, child survival and contraception and to make reproductive health care available and affordable for all.
There are three types of objectives of National Population Policy (NPP) 2000:

1. **The immediate objective**: The immediate objective of the policy was to address the unmet needs for contraception, health care infrastructure and health personnel and to provide integrated service delivery for basic reproductive and child health care.

2. **The mid-term objective**: The mid-term objective is to bring the Total Fertility Rate (TFR) to replacement level by 2010 through forceful implementation in inter-sectorial operational strategies.

3. **The long-term objective**: The long-term objective is to achieve a constant population by 2045 at a level consistent with the desires of sustainable economic growth, social development, and environment protection.

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

### 9.3.3 National Socio-Democratic Goals 2010

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

**National Socio-Demographic Goals for 2010**

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

Check Your Progress


9.4 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Like many other third world countries, the urban population of the country is increasing very slowly. Despite the growing migration from rural to urban areas, the population living in the urban areas is only 25 to 30%. The increase in the urban population from 1901 to 1991 has only been 15%, i.e., the increase of population from 10.8% to 25.8%.

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

3. Projections are made by academicians, demographers and institutions like the United Nations, Central Statistical Organizations, Planning Commission, etc. In 1949, Kingsley Davis made three projections for India. Though his predictions were far removed from reality, his projections had given theoretical knowledge for academicians and demographers.
4. The demographic scenario of population growth with reference to the past, present and the future can be understood taking into consideration the following factors:
   1. Size and growth
   2. Rural and urban population
   3. Sex and age composition
   4. Expectation of life at birth
   5. Density
   6. Growth rate
   7. Literacy

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

6. In India, the age of marriage is still very low and the preference for a son still exists in the minds of Indians even today. Literacy rates are low, particularly in the case of females. Male-female ratio is becoming increasingly unfavourable to women and mortality rates are to be reduced further. The birth rate in India is so high that it is higher than what the economy can sustain at the existing level of development. Since 1951 our population has more than tripled. It is the ever-growing numbers which have made our population a matter of serious concern. Planning for such a large population is a very hard task.

7. It is understood that in India most childbirths occur during the age of 15–19 years. Fertile union starts with the age of effective marriage and it continues up to death. Other causes of stoppage of fertility are separation, crossing of the maximum fertile age, which is considered as 50 years, etc. The fertility of the female is an important factor affecting reproduction and consequently increasing the population. According to Prof. Visaria, the general fertility rate should be reduced significantly.

8. The rising population increases the burden of unproductive consumers. Unproductive consumers are those who do not produce anything but only consume. Generally infants, children and old people are unproductive consumers. But in India, there are many other unproductive consumers like the unemployed, underemployed and seasonally employed persons. A growing population also affects the per capita income thus lowering the standard and quality of life.
9. There are three types of objectives of National Population Policy (NPP) 2000:

1. The immediate objective: The immediate objective of the policy was to address the unmet needs for contraception, health care infrastructure and health personnel and to provide integrated service delivery for basic reproductive and child health care.

2. The mid-term objective: The mid-term objective is to bring the Total Fertility Rate (TFR) to replacement level by 2010 through forceful implementation in inter-sectorial operational strategies.

3. The long-term objective: The long-term objective is to achieve a constant population by 2045 at a level consistent with the desires of sustainable economic growth, social development, and environment protection.

9.5 SUMMARY

- Like many other third world countries, the urban population of the country is increasing very slowly. Despite the growing migration from rural to urban areas, the population living in the urban areas is only 25 to 30%.

- Migration from rural areas to urban areas is increasing every year. In earlier days the maximum migration was towards Tripura, followed by Delhi. Lower migration was observed in the states of Rajasthan, Madhya Pradesh, Bihar and Uttar Pradesh. The high rate of migration in Assam is due to industrialisation.

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

- The first census was conducted in India in 1881; it had many shortcomings. Many areas were left out in this census. In 1901 while census operations were made, all the left-out territories in the earlier census were covered. Till 1931 census was done as a ‘one night affair’. Since 1941, the system of census has changed to the present style.

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

- The urban population in India is very low when compared to European countries. In European countries almost 70% of the population lives in urban
areas whereas in India even after 57 years of Independence, only 25.7% of the population lives in urban areas.

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

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

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

- Today a population policy has become a common feature. There are region-specific population policies. Many private agencies are also engaged in designing population policies for regions and countries. A population policy is a social policy where the makers of the policy discuss various aspects of the policy. Population policies are like eye openers for the social change that is taking place in the nation.

- The size of the population is the total number of the people in the country and rate refers to fertility and the mortality rate of the population. Distribution is the density of the population. It also includes migration patterns.

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

### 9.6 KEY WORDS

- **Census**: A census is an official survey of the population of a country that is carried out in order to find out how many people live there and to obtain details of such things as people’s ages and jobs.

- **Demography**: The study of statistics such as births, deaths, income, or the incidence of disease, which illustrate the changing structure of human populations.
• **Population Estimate**: This refers a calculation of the size of a population for a year between census periods or for the current year.
• **General fertility rate**: Number of live births per 1000 women between the ages of 15 and 44 years.
• **Anti-natalist policy**: A natalist policy is a scheme or law that a government may adopt in order to control their population. An example of an anti-natalist policy, which encourages families to have fewer children, is the famous ‘one-child policy’ in China, introduced in 1978-1980.

### 9.7 SELF ASSESSMENT QUESTIONS AND EXERCISES

**Short-Answer Questions**
1. Write a short note on urban population in India.
2. Explain the significance of population estimate.
3. What were the two broad periods to enumerate the population?
4. ‘Early is one of the causes of high fertility in India. Explain this statement while considering India’s population growth.
5. Write a brief note on the role of social factors in population growth in India.

**Long-Answer Questions**
1. Discuss the role of migration in India’s growing urban population.
2. Analyse the life expectancy and the distribution of population according to age and sex.
3. Discuss the role of various agencies involved in population estimates in India.
4. Enumerate the demographic scenario of population growth in India with reference to the past, present and the future.
5. Discuss in detail the causes of growing population in India.
6. Analyse some of the social factors responsible for high fertility rate in India.
7. Analyse and critically evaluate the role of national population policy in India.

### 9.8 FURTHER READINGS


NOTES


UNIT 10 INFRASTRUCTURE DEVELOPMENT

Structure
10.0 Introduction
10.1 Objectives
10.2 Transport Coordination
   10.2.1 Various Modes of Transport
   10.2.2 Importance of Transport to Economic Growth
10.3 Answers to Check Your Progress Questions
10.4 Summary
10.5 Key Words
10.6 Self Assessment Questions and Exercises
10.7 Further Readings

10.0 INTRODUCTION

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

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

As the most modern and the quickest mode of transport, air transport has now turned into as an engine of growth. To meet the growing traffic, development of airports are being done on priority basis. Upgradation of various airports and construction of new terminals will improve the air navigation services.

The unit aims at highlighting the role of India’s transport system and emphasizes the need for infrastructure development in various modes of transport.
10.1 OBJECTIVES

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

- Understand the significance of transport system for countries like India
- Enumerate the growth of various modes of transport to broaden the market
- Explain the expansion and growth of Railways, roads and airways in India
- Get an insight into goals set to enhance the transport system
- Know about the ongoing upgradation of various airports to meet the growing traffic
- Understand transport as a propeller of economic growth

10.2 TRANSPORT COORDINATION

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

10.2.1 Various Modes of Transport

(i) Growth of Indian Railways

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

As compared to the railways, the road transport system has definite advantages:

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

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

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

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

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

Fig. 10.1 Contribution of Road Transport System in India

(iii) National Highway Development Projects

As of now about 24 per cent of the total length of National Highways (NHs) is single lane/intermediate lane, about 51 per cent is two-lane standard, and the balance 25 per cent is four-lane standard or more. In 2012-13, the achievement under various phases of the National Highways Development Project (NHDP) up to December 2012 has been about 1,605 km and projects have been awarded for a total length of about 878 km.

(iv) Civil Aviation in India

Air traffic in India continues to register significantly higher rates of growth averaging 18.5 per cent in the last seven years. Domestic passenger traffic handled at Indian airports reached 108.1 million during January-November 2011 from a level of 90.5 million in the corresponding period in the previous year, registering a growth of 19.4 per cent. International passenger traffic and cargo handled at Indian airports
grew by 7.7 per cent during January-November 2011 and was placed at 33.6 million passengers and 1.4 MMT of cargo. Domestic cargo throughput during January-November 2011 stood at 0.75 MMT, the same level as in the previous year.

(v) Airport Infrastructure

In 2011, airport infrastructure development continued at a significant pace. Upgradation of Kolkata and Chennai airports, including construction of new terminals, is at an advanced stage of completion. In another 18 non-metro airports, various upgradation works like expansion of terminal buildings, aprons, taxiways, and aerobridges have been taken up. For improving air navigation services, the Airport Authority of India (AAI) installed the new ATS automation system at Chennai. The Government approved a one-time grant-in-aid of ₹378.0 crore to the AAI for the Final Operation Phase of GPS Aided GEO Augmented Navigation (GAGAN) project. At IGI airport, Delhi, upgradation of the existing cargo terminal and construction of a Greenfield cargo terminal have been undertaken. At Mumbai airport, apart from the airport development project under way, upgradation of runway 09/27 was completed. In order to meet the requirements of increasing traffic, work relating to expansion of the terminal building and apron was undertaken at Bangalore international airport. Government also gave ‘in-principle’ approval for setting up of a Greenfield airport at Karaikal in Puducherry and Shirdi in Maharashtra.

10.2.2 Importance of Transport to Economic Growth

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

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

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

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

1. Explain the role of transport system.
2. Why is expansion of transport needed?
3. List the various modes of transport.
4. What does the Ministry of Railways’ Vision 2020 state?
5. Write a brief note on international passenger traffic and cargo handled at Indian airports.
6. Explain the various upgradation works started by the Government and Airport Authority of India.

10.3 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. Among all the functions of a well-knit transport system, it contributes to expand markets for goods and products that various industries need. It helps in increase in the demand for goods and large-scale production.

2. It is also essential for the movement of raw materials, fuel, machinery and machinery to the places of production. Expansion of transport is of fundamental importance for a developing country like India.

3. The present Indian transport system comprises several modes including rail, road, coastal shipping, air transport, etc.

4. The Ministry of Railways Vision 2020 document envisages the railway sector’s share in the GDP to increase from the existing level of 1 per cent to about 3 per cent and its revenues to grow by 10 per cent annually over the next ten years.

5. International passenger traffic and cargo handled at Indian airports grew by 7.7 per cent during January-November 2011 and was placed at 33.6 million passengers and 1.4 MMT of cargo.

6. Upgradation of Kolkata and Chennai airports, including construction of new terminals, is at an advanced stage of completion. In another 18 non-metro airports, various upgradation works like expansion of terminal buildings, aprons, taxiways, and aerobridges have been taken up. For improving air navigation services, the Airport Authority of India (AAI) installed the new ATS automation system at Chennai.
10.4 SUMMARY

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

- Some of the major goals set for 2020 in the document include (a) laying of 25,000 km of new lines; (b) quadrupling of the 6,000 km network with segregation of passenger and freight lines; (c) electrification of 14,000 km; (d) completion of gauge conversion; (e) upgradation of speed to 160-200 kmph for passenger trains; and (f) construction of 2,000 km of high-speed rail lines.

- As of now about 24 per cent of the total length of National Highways (NHs) is single lane/intermediate lane, about 51 per cent is two-lane standard, and the balance 25 per cent is four-lane standard or more.

- Domestic passenger traffic handled at Indian airports reached 108.1 million during January-November 2011 from a level of 90.5 million in the corresponding period in the previous year, registering a growth of 19.4 per cent.

- In 2011, airport infrastructure development continued at a significant pace. Upgradation of Kolkata and Chennai airports, including construction of new terminals, is at an advanced stage of completion.

- In order to meet the requirements of increasing traffic, work relating to expansion of the terminal building and apron was undertaken at Bangalore international airport. Government also gave ‘in-principle’ approval for setting up of a Greenfield airport at Karaikal in Puducherry and Shirdi in Maharashtra.

- The present Indian transport system comprises several modes including rail, road, coastal shipping, air transport, etc. Transport has recorded a substantial growth over the years both in terms of length and output of the system.

10.5 KEY WORDS

- GPS: The Global Positioning System (GPS) is a space-based navigation system that provides location and time information in all weather conditions, anywhere on or near the Earth where there is an unobstructed line of sight to four or more GPS satellites.

- Greenfield Airport: A Greenfield project is one which is not constrained by prior work. Some examples of Greenfield projects are new factories, power plants or airports which are built from scratch.
• **GAGAN**: GPS Aided GEO Augmented Navigation (GAGAN) is a step by the Indian Government towards initial Satellite-based Navigation Services in India. The Airports Authority of India (AAI) and Indian Space Research Organization (ISRO) have collaborated to GAGAN as a regional Satellite Based Augmentation System (SBAS).

### 10.6 SELF ASSESSMENT QUESTIONS AND EXERCISES

#### Short-Answer Questions

1. Write a brief note on the role played by transport in country’s economic growth.
2. Explain the massive contribution by Indian Railways to the existing transport system.
3. Explain the various advantages of road transport.
4. Write a short note on growing air traffic in India.

#### Long-Answer Questions

1. Discuss the need of accelerating infrastructural development in India’s transport system.
3. Discuss the achievement of National Highway Development Projects.
4. Describe in detail the growth of transport in India.

### 10.7 FURTHER READINGS


UNIT 11 POVERTY IN INDIA

11.0 INTRODUCTION

The concept and content of poverty may differ from country to country but it is a global phenomenon. As is universally acknowledged, poverty is classified into two categories – absolute and relative poverty. While the former is less prevalent in developed countries, the latter exists in every country whether it is developed or underdeveloped. Unemployment, which leads to poverty and inequalities, is one of the most serious in India. As per the estimate, during 2008 to 2011, the compound annual unemployment growth rate in the organized sector, including public and private sectors in the country was 1.72 per cent.

Significantly, countries with advanced industrial development face cyclical unemployment whereas developing countries like India experience the problem of unemployment and underemployment. There are numerous reasons for unemployment and some remedial measures are needed urgently to stave off this crisis because this creates hindrance to socio-economic growth of country.

Various programmes have been launched by the government to eradicate poverty and unemployment. Since the Fifth Five-Year Plan (1974–79), poverty alleviation has been adopted as an explicit objective of our economic planning. This has been done with the specific objective of reducing poverty. In the 1980s and 1990s, the government undertook various programmes which were more comprehensive and made a direct attack on rural and urban poverty. Garibi hatao (remove poverty) had become a slogan during the Sixth Five Year Plan of the Indira Gandhi Government. Agricultural growth became the focus of the government and a number of poverty alleviation schemes were undertaken.
Then there is social dimensions of poverty because insufficient income is an important factor of marginalization. However, poverty being an intricate phenomenon, any programme for poverty alleviation should address the issue of poverty from broader social and economic perspectives.

The unit aims at decoding the true meaning of poverty, the issue of unemployment, various programmes and measures to eradicate them especially in developing countries like India.

11.1 OBJECTIVES

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

- Define the meaning of poverty
- Understand the types of poverty
- Enumerate both the categories of poverty
- Understand the issue of unemployment in India
- Enumerate employment and underemployment
- Get an insight into unemployment in developing countries
- Explain the various reasons for the unemployment in India
- Make an assessment of effects and measures for unemployment
- Understand various unemployment eradication programmes
- Explain the social dimension of poverty in India

11.2 MEANING AND TYPES OF POVERTY IN INDIA

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

- **Absolute poverty**: Less prevalent in developed countries, absolute poverty is a state in which people do not have the minimum level of income deemed necessary for living in a civilized society. Absolute poverty refers to the percentage of populace living below the poverty line.

- **Relative poverty**: Poverty defined by reference to the living standards of the majority in any given society. Relative poverty refers to the phenomenon when the income for consumption expenditure of a section of the society is
distinctively below the average income level of the society. Relative poverty indicates that a group or class of people belonging to lower income group is poorer when compared to those belonging higher income group. Since income is distributed unequally in almost all the countries, whether developed or undeveloped, relative poverty exists in every country.

11.2.1 Difference between Relative Poverty and Absolute Poverty

The major differences between relative and absolute poverty are given in Table 11.1

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

Check Your Progress

1. What do you mean by poverty?
2. List the two categories into which poverty is classified?

11.3 POVERTY AND UNEMPLOYMENT

One of the most acute challenges that the Indian economy has been facing is the mounting rate of unemployment. It promotes poverty and inequalities, lowers social standards and is a huge loss of manpower resources to the nation. Unemployment is a chronic malady in India that deprives able bodied people to work on the current wages. It lowers the standard of living of the people since unemployed people do not have enough purchasing power. They face social degradation and suffer from inferiority complex. Therefore, some economists call unemployment problem as a socio-economic challenge to the society.

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

The number of unemployment in India increased from 2.01 crore in 1993–94 to 2.66 crore in 1999–2000. The labour force in 1999–2000 was about 363.33 million (36.33 crore) which has gone up significantly during Tenth Plan period. According to the data released by the NSSO, employment on Current Daily Status (CDS) basis during the periods 1999–2000 and 2004–05, had increased considerably in comparison to the augmentation registered during the periods 1993–94 and 1999–2000. During this period, about 47 million work opportunities were created compared to only 24 million in the period between 1993–94 and 1999–2000. Employment growth accelerated from 1.25 per cent per annum to 2.62 per cent per annum. However, the labour force grew at faster rate of 2.84 per cent than the work force, and unemployment force also rose. The incidence on unemployment on CDS basis increased from 7.31 per cent in 1999–2000 to 8.28 per cent in 2004–05.

Employment growth in the organized sector, public and private combined declined during the period 1994–2007. This can be attributed to the increase in employment rate in the public organized sector.

The compound annual unemployment growth rate in the organized sector, including public and private sectors in the country during 2008 to 2011 was 1.72 per cent. It was –0.24 for the public sector and 5.06 for the private sector.

11.3.1 Unemployment and Underemployment: Definitions

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

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

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

11.3.2 Measures for Unemployment in India

The following measures are suggested in this regard:

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

(ii) High rate of capital formation: The rate of capital formation must be increased in India. Capital formation should be encouraged only in those areas which generate greater employment opportunities. Presently, this rate is 30 per cent of the GDP, but it needs to be raised to the level of 30 per cent to 35 per cent.

(iii) Education reforms: The Indian education system should be made more employment oriented. From the very beginning, emphasis should be laid on vocational education.

(iv) More expansion of employment exchange: Employment exchanges are the institutions that bring together jobs and jobseekers. More employment exchanges will make the labour more mobile. However, there is a need to improve the functioning of employment exchanges in the country.

(v) Policy towards seasonal unemployment: Indian agriculture is of a seasonal nature, due to which the Indian farmers remain unemployed for some time. The employment policy in India should act in the following direction to remove these problems:
- Promotion of multiple cropping
- Promotion of activities allied to agriculture
- Investment programmes for rural areas
- Setting up of seasonal industries

(vi) Policy towards seasonal unemployment: Nearly, 62 per cent people are self-employed in India, and most of them are engaged in agriculture sector. The government should provide different facilities and encouragement to the people who are engaged in their own occupations.

(vii) Employment opportunities for women: Presently, 12 per cent of women are employed in organized sector, which is a quite low percentage. The Government of India should take the following steps to promote women employment:
- Residential accommodation for working women on a large scale
- Education and training facilities for working mothers
- Availability of crèches for the children of working mothers

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

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

11.4 POVERTY AND UNEMPLOYMENT ERADICATION PROGRAMMES IN INDIA

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

(i) Economic growth: Economic growth can be helpful in removing poverty because of the trickle-down effect. It was thought that the benefits of economic growth would trickle down to the underprivileged in the form of more employment and more income because of the expansion of agricultural and non-agricultural activities. There are several potential drivers of growth that suggest it may be possible to accelerate GDP growth in the Twelfth Plan beyond the 8.2 per cent level achieved in the Eleventh Plan. These drivers include the impact of economic growth, development of a dynamic private sector, good management skills, etc.

(ii) Population control: High growth rate of population among the lower strata of the society is an important factor that is responsible for the perpetuating problem of poverty. Jansankhya Sthirata Kosh (JSK) has been registered as an autonomous society of the Ministry of Health and Family Welfare. The Government has provided a ₹100 crore corpus fund to signify its commitment to the activities of the Kosh. JSK has to use the interest on the corpus and also raise contributions from organizations and individuals that support population stabilization.

(iii) Agricultural development: Along with a substantial increase in plan allocation and credit for agriculture proper, an ambitious Bharat Nirman for rural infrastructure, the National Rural Employment Guarantee Act (MGNREGA) to dovetail employment security with land and water conservation, and the Backward Regions Grants Funds (BRGF) have enabled Panchayati Raj institutions in poorer regions to make their own plans. In addition to enhancing the scope of these initiatives, and making
modifications as suggested by the various working groups, the Eleventh Plan introduced the Rashtriya Krishi Vikas Yojana (RKVY). This put in effect the NDC resolution to ‘introduce a new scheme for Additional Central Assistance to incentivize states to draw up plans for the agricultural sector more comprehensively, taking agro-climatic conditions, natural resource issues and technology into account, and integrating livestock, poultry and fisheries more fully.’ The Twelfth Plan will consider all these issues, as well as the weaknesses of existing schemes as brought out in the Mid-Term Appraisal of the Eleventh Plan. Its thrust will be to move forward with the RKVY and, in particular, focus more on the issues of sustainable development.

(iv) **Land reforms:** The Government had worked on a combined Land Acquisition and Rehabilitation & Resettlement Bill, 2011. The reason for combining the two into a single legislation is that land acquisition and resettlement and rehabilitation (R&R) need to be seen necessarily as two sides of the same coin. The Bill seeks to balance the need for facilitating land acquisition for various public purposes, including infrastructure development, industrialization and urbanization, while at the same time meaningfully addressing the concerns of farmers and those whose livelihoods are dependent on the land being acquired.

(v) **Development of cottage and small-scale industries:** The small-scale industries have been given a special place in the industrialization programme. Since these industries have played an important role in the generation of employment and in ensuring a more equitable distribution of income; the government has provided necessary incentives, support technical assistance and infrastructure facilities to promote these industries.

(vi) **Public Distribution System:** The government has also launched a scheme of Public Distribution System (PDS). The objective of this scheme is to provide cheap and subsidized food grains to the poor. The PDS functions through a wide network of fair price shops. Since June 1997, a new scheme known as the Targeted Public Distribution System (TPDS) has been adopted in order to provide subsidized food grains for the families falling below the officially estimated poverty line at the rate of 10 kg per month per family.

The government is considering the National Food Security Bill, 2013. According to this Bill, every person belonging to ‘priority households’ are entitled to receive five kilograms of food grains per person per month at subsidized prices from the state government under the TDPS. The TPDS system today supports over 40 crore Indians below the poverty line with monthly supply of subsidized food grains. The system also provides gainful employment for 4.78 lakh Fair Price Shops Owners, their employees and hired labour who work at the FCI and state warehousing godowns.
Since the Fifth Five-Year Plan (1974–79), poverty alleviation has been adopted as an explicit objective of our economic planning. Since then, a number of poverty alleviation programmes have been launched with the specific objective of reducing poverty. During the 1970s, a number of special programmes for the rural poor were undertaken. Some of the important programmes were as follows:

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

The wage employment programmes started as pilot projects in the form of Rural Manpower Programme (RMP) [1960-61], Crash Scheme for Rural Employment (CRSE) [1971–72], Drought Prone Area Programme started as Rural work Programme (RWP) [1972], Small Farmers Development Agency (SFDA), Marginal Farmers & Agricultural Labour Scheme (MF&AL) for the poorest of the poor. These experiments were translated into a full-fledged wage-employment programme in 1977 in the form of Food for Work Programme (FWP). In the 1980s, this programme was further streamlined into the National Rural Employment Programme (NREP) and Rural Landless Employment Guarantee Programme (RLEGJP), Jawahar Rozgar Yojana (JRY 1993–94) and Employment Assurance Scheme (EAS). This programme (RLEGJP) begun in 1983.

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

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

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

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

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

(ii) **Indira Awaas Yojana (IAY):** It is an important scheme whose main purpose is the construction of houses for the poor people. Initially, it aimed at providing houses free of cost to the poor families belonging to scheduled castes and scheduled tribes and free bonded labourers. Later, the scheme was extended to cover other underprivileged categories as well.

(iii) **Shiksha Sahayog Yojana (SSY):** This scheme was launched on 31 December 2001. It aims at providing monthly education allowance of ₹100 for children whose parents meet the criteria of living below the poverty from the ninth to twelfth standard.

(iv) **Pradhan Mantri Gramodaya Yojana (PMGY):** PMGY was introduced in 2000–01 with the objective of focusing on village level development in five critical areas such as health, primary education, drinking water, housing and rural roads. PMGY includes the following three major projects:

- **Pradhan Mantri Gram Sadak Yojana (PMGSY):** PMGSY was launched on 25 December with the objective of providing road connectivity through good all-weather roads to all rural habitations.
- **Pradhan Mantri Gramodaya Yojana (Gramin Awaas):** This scheme was implemented in April 2000 based on Indira Awaas Yojana having at its heart the aim of sustainable habitat development in rural areas to accommodate the increasing housing needs of the poor people living in villages.
- **Pradhan Mantri Gramodaya Yojana (Rural Drinking Water Project):** Rural Drinking Water Project was launched with the
objective of developing projects for providing water harvesting, water conservation and drinking water to drought prone areas.

(v) **Samagra Awaas Yojana (SAY):** This scheme was undertaken in 1999–2000 on pilot project basis to meet the housing needs in one block in each twenty-five districts of twenty-four states and in one Union Territory with a view to ensuring integrated provision of shelter, sanitation and drinking water.

(vi) **Natural Food for Work Programme (NFWP):** This programme was initially launched in February 2001 for five months, and was further extended. The programme aims at augmenting food security through wage employment in the drought affected areas in eight states, namely, Gujarat, Chhattisgarh, Himachal Pradesh, Madhya Pradesh, Maharashtra, Orissa, Rajasthan and Uttarakhand. Under this scheme, wages are paid partly in kinds like food grains and partially in cash. It is the responsibility of the state governments to implement this scheme.

(vii) **Krishi Shramik Samajik Suraksha Yojana (KSSSY):** KSSSY came into effect in July 2001 with an aim to provide social security benefit to agricultural labourers, who were between the age of 18 and 60 years.

(viii) **Annapurna:** The Annapurna Scheme became effective from April 2000 as an entirely Centrally Sponsored Scheme. The main purpose of this scheme was to provide food security to meet the needs of senior citizens. The scheme became effective in most Indian states and five Union Territories. This scheme offered assistance to more than 6,08,000 families.

(ix) **Jawaharlal Nehru National Urban Renewal Mission (JNNURM):** This scheme was launched in 2005–06 for a seven-year period. It has two components—Basic Service to the Urban Poor Programmes (BSUPP) and Integrated Housing and Slum Development programme (IHSDP).

(x) **Valmiki Ambedkar Awaas Yojana (VAAY):** This scheme was launched in the year 2001. It facilitates the construction and upgradation of dwelling units for slum dwellers. It also provides community toilets under Nirmal Bharat Abhiyan.

(xi) **Antodaya Anna Yojana (AAY):** With the sole aim of offering food security to the senior citizens under the National Old Age Pension Scheme, food grains are given to the beneficiaries at subsidized rates of ₹2 per kg. This scheme became effective from 1 April 2000 as an entirely Centrally Sponsored Scheme. It has covered more than 6,00,000 people. As announced in the Union Budget 2005–06, the AAY was further expanded to cover 50 lakh below poverty line households, which extends its coverage to 2.5 crore households.
Garibi Hatao: ‘Garibi hatao’, which means ‘eradicate poverty’ was the slogan of the Sixth Five Year Plan of the Indira Gandhi Government. Agricultural growth became the focus of the government and a number of poverty alleviation schemes were undertaken.

Food for work programme: A short run programme was initially launched with effect from February 2001 for five months, but it was further extended. The main objective of this programme was to augment food security by making available wage employment in the drought affected rural areas in eight states, namely, Gujarat, Chhattisgarh, Himachal Pradesh, Madhya Pradesh, Maharashtra, Orissa, Rajasthan and Uttaranchal. The Central Government is responsible for making available a sufficient amount of food grains for free to each of the states that was affected by the drought. Wages by the State government can be paid partially in kind (up to 5 kg of food grains per Monday) and partially in cash. Assuring the notified minimum wages, the workers are paid the minimum balance of wages in cash. This programme stood extended up to 31 March 2002 in respect of notified ‘National Calamity Affected Districts’. This scheme was later merged in NREGS since 2 February 2006.

Check Your Progress

3. What is under employment?
4. Enumerate some of the measures adopted by the government for the removal of poverty.
5. What is the National Food Security Bill, 2013?

11.5 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

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

2. Poverty can be classified into two categories, absolute poverty and relative poverty and they are mentioned below:
   - Absolute poverty: less prevalent in developed countries, absolute poverty is a state in which people do not have the minimum level of income...
deemed necessary for living in a civilized society. Absolute poverty refers to the percentage of populace living below the poverty line.

- Relative poverty: poverty defined by reference to the living standards of the majority in any given society. Relative poverty refers to the phenomenon when the income for consumption expenditure of a section of the society is distinctively below the average income level of the society. Since income is distributed unequally in almost all the countries, whether developed or undeveloped, relative poverty exists in every country.

3. Underemployment refers to a situation when a worker does not work for full hours (normally 8 hours a day).

4. Poverty alleviation and improvement in the standard of living of the masses has been one of the most important objectives of planning in India. However, the emphasis that is laid on the objective of poverty alleviation and strategy to achieve this objective has changed over the years. The measures which have been adopted by the government for the removal of poverty are as follows:
   (i) Economic growth
   (ii) Population control
   (iii) Agricultural development
   (iv) Land Reforms
   (v) Development of cottage and small-scale industries
   (vi) Public distribution system

5. The government is considering the National Food Security Bill, 2013. According to this Bill, every person belonging to ‘priority households’ are entitled to receive five kilograms of food grains per person per month at subsidized prices from the state government under the TPDS. The TPDS system today supports over 40 crore Indians below the poverty line with monthly supply of subsidized food grains.

11.6 SUMMARY

- There are two types of poverty. One is income poverty and other is human poverty. Income poverty refers to lack of necessities of material well-being. Human poverty refers to denial of opportunity for living a tolerable life. The concept and content of poverty differs from country to country.

- Relative poverty refers to the phenomenon when the income for consumption expenditure of a section of the society is distinctively below the average income level of the society. Relative poverty indicates that a group or class of people belonging to lower income group is poorer when compared to those belonging higher income group.
One of the most acute challenges that the Indian economy has been facing is the mounting rate of unemployment. It promotes poverty and inequalities, lowers social standards and is a huge loss of manpower resources to the nation. Unemployment is a chronic malady in India that deprives able bodied people to work on the current wages.

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

Measures for removal of poverty are as follows: economic growth, population control, land reforms, etc.

Some poverty alleviation programmes include NSAP, SAY, NFWP, KSSSY, AAY, etc.

11.7 KEY WORDS

- NSSO (The National Sample Survey Office): It is headed by a Director General who is responsible for conduct of large scale sample surveys in diverse fields on All India basis. Primarily data are collected through nationwide household surveys on various socio-economic subjects. NSSO collects data on rural and urban prices and plays a significant role in the improvement of crop statistics through supervision of the area enumeration and crop estimation surveys of the State agencies. It also maintains a frame of urban area units for use in sample surveys in urban areas.

- Current Daily Status (CDS) Unemployment: The current daily status approach to measuring unemployment seeks to ascertain the activity status of an individual for each day of the reference week. It reports time disposition of an individual on each day of the reference week.

- Cyclical unemployment: It is a factor of overall unemployment that relates to the regular ups and downs, or cyclical trends in growth and production, that occur within the business cycle.

- Disguised unemployment: Technically, disguised unemployment or invisible unemployment exists when marginal productivity of a labour is zero. When business cycles are at their peak, cyclical unemployment will tend to be low because total economic output is being maximized.

- Garibi Hatao: ‘Garibi hatao’, which means ‘eradicate poverty’ was the slogan of the Sixth Five Year Plan of the Indira Gandhi Government. Agricultural growth became the focus of the government and a number of poverty alleviation schemes were undertaken.
11.8 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

1. Write a short note on the meaning and types of poverty.
2. Explain the significance of relative poverty.
3. Enumerate the growth of unemployment in India.
4. Write a brief note on the major problems of employment in the developing countries.
5. Enumerate some of the measures for unemployment in India.

Long-Answer Questions

1. Discuss the prevalence of poverty in India.
2. Analyse the difference between absolute poverty and relative poverty.
3. “The problem of unemployment and underemployment represents a challenge to the developing countries like India”. Analyse this statement with relevant data.
4. Discuss some of the remedial measures to contain unemployment.
5. Analyse some of the poverty-alleviation programmes launched by successive governments in India.
6. Analyse and critically evaluate the efficacy of programmes initiated for the rural poor.

11.9 FURTHER READINGS

UNIT 12 FOREIGN TRADE

Structure
12.0 Introduction
12.1 Objectives
12.2 India’s Foreign Trade: Meaning and Implications
   12.2.1 Trade Philosophy
   12.2.2 Framework of Trade
   12.2.3 Structural Changes in India’s Foreign Trade Policy
12.3 Balance of Payments
   12.3.1 Features of the Balance of Payments
   12.3.2 Current Scenario of India’s Balance of Payments
   12.3.3 Significance of Balance of Payments
   12.3.4 Accounting of Balance of Payments
   12.3.5 Source of Compilation
   12.3.6 Limitations in Compilation
   12.3.7 Balance of Payments Data
   12.3.8 Mechanism of Adjustment
   12.3.9 Adjustment of Balance of Payments under the Gold Standard
   12.3.10 Deficit Country and Surplus Country
   12.3.11 Income Adjustment
   12.3.12 Balance of Payments: A Measurement of Deficits
   12.3.13 Role of Service in Balance of Payments
   12.3.14 Non-Resident Inflows
   12.3.15 Allocation (Or Cancellation) of Special Drawing Rights (SDRs)
   12.3.16 Monetization /Demonetization of Gold
   12.3.17 Unrequired Transfers
   12.3.18 Double Entry System of Recording
   12.3.19 Balance of Payments and International Economic Linkages
12.4 Exim (Foreign Trade) Policy
   12.4.1 AIMS and Objectives
   12.4.2 Foreign Trade Policy (FTP) 2015-20
   12.4.3 Major Changes in the Foreign Trade Policy, 2009-14
   12.4.4 Highlights of the Foreign Trade Policy, 2009-14
12.5 Answers to Check Your Progress Questions
12.6 Summary
12.7 Key Words
12.8 Self Assessment Questions and Exercises
12.9 Further Readings
12.0 INTRODUCTION

A country’s trade policy plays a pivotal role in its economy. As the country needs to import diverse products, so trade policy is extremely important to country. India exports a number of products of varied nature and also imports an equal amount of other products. In the recent times, as a result of the paradigm shift in foreign trade policy, exports showed an unprecedented growth rate over the previous years. The export target was far exceeded crossing way ahead of the target for the first time. This was not the case earlier as exports were about 8 per cent in 1951–52 which fell to 4.4 per cent in 1971–72 but rose again to around 8 per cent in the 1970s and 1980s due to faster growth of exports. Imports as a percentage of national income have also declined from 10.7 per cent in 1951-52 to 4.9 per cent in 1971-72.

The institutional support to export promotion was strengthened during the tenure of the Fourth to Sixth Plan period. The Trade Development Authority (TDA) was set up to help the medium and small-scale entrepreneurs to develop their export potential. Trade policy was formulated after recommendations of various committees as it needs continuous monitoring and adjustments in line with domestic and international changes. The Sixth Plan envisaged that both import substitution and export promotion would have to be accorded equal importance in view of the large deficits as projected in the balance of payments. The information contained in a nation’s balance of payments is indispensable to banks, firms, and individuals directly or indirectly involved in international trade and finance.

India witnessed a robust growth in exports in the last five years mainly on account of the twin objectives, set out in the first Foreign Trade Policy 2004–09. The trade policy of India is guided by the Export Import in known as in short EXIM Policy of the Indian Government and is regulated by the Foreign Trade Development and Regulation Act, 1992. DGFT (Directorate General of Foreign Trade) is the main governing body in matters related to Exim Policy. The main objective of the Foreign Trade (Development and Regulation) Act is to provide the development and regulation of foreign trade by facilitating imports into, and augmenting exports from India.

This unit carries a comprehensive description of India’s trade policy, its implication, Balance of Payments and EXIM policy.

12.1 OBJECTIVES

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

- Understand India’s trade policy and its objectives
- Explain the role of foreign trade in the national economy
Foreign Trade

NOTES

1. Get an insight into the structural changes in India’s foreign trade policy
2. Understand the Balance of Payments of a country
3. Enumerate the various features of the Balance of Payments
4. Understand accounting and adjustment in the Balance of Payments
5. Explain the role of the Export-Import (EXIM) policy

12.2 INDIA’S FOREIGN TRADE: MEANING AND IMPLICATIONS

A country’s trade policy refers to the set of policies which govern the external sector of its economy. In a country like India, trade policy is one of the many economic instruments which is used to suit the requirements of economic growth. The main objectives of India’s trade policy have been to promote exports and restrict the level of imports to the level of foreign exchange available to the government. During the middle of the Second Plan, the importance of exports in the context of developmental planning was first recognized.

The role of foreign trade in the national economy can be adjudged by the proportion of foreign trade to national income. As a proportion of national income, exports were about 8 per cent in 1951–52 which fell to 4.4 per cent in 1971–72 but rose again to around 8 per cent in the 1970s and 1980s due to faster growth of exports. Imports as a percentage of national income have also declined from 10.7 per cent in 1951-52 to 4.9 per cent in 1971-72 but stood at 9–10 per cent in the 1970s.

In 1993-94, exports as a percentage of national income stood at 8.7 per cent while the corresponding percentage for imports was 9.1 per cent. This data signifies that, first, now India is less dependent on the world economy than it was in the earlier decades. From the year 1951–1990, world trade grew at a faster rate than that of India’s trade. The declining share in world trade is a common phenomenon for all developing countries which implies thereby that world trade has only benefited the developed countries and not others.

12.2.1 Trade Philosophy

First, the export philosophy was designed with a view to conserve the limited supplies of some essential commodities for domestic consumption and hence their exports were restricted. Second, export of certain goods which are of strategic importance like defence goods are prohibited. Third, exports to certain countries like South Africa and East Africa are not permitted for political reasons. India has aimed at the promotion of exports, keeping in view the limitations so that sufficient
Foreign exchange is available to pay for the requisite imports and also for facilitating the servicing of foreign debt and for building a buffer stock of reserves.

Import policy is an adjunct to the export policy and both are broadly coordinated so as to keep the receipts and payments in balance. While the export policy aims at the promotion of exports, the import policy encourages import substitution so that there is minimum withdrawal of foreign exchange reserves.

Import controls aim at restricting unwanted import of goods to conserve the limited foreign exchange reserves. Of the imports permitted, capital goods that are not produced at home, and raw materials are prioritized. Of the rest, priority among imports is assigned to food grains, scarce consumer goods like oils, sugar, etc., or to agricultural inputs like fertilizers. A substantial chunk of our import bill is accounted for by crude oil and petroleum, imports of which cannot be dispensed due to inadequate supplies here. Import controls are widespread in India and both tariff and non-tariff barriers are used to control imports. A licence is required for any item of export or import unless it is specifically permitted under the ‘Open General Licence’ category of items.

12.2.2 Framework of Trade

Before Independence, India had trade surpluses and there was regular gold inflow into the account to pay for the surplus. But almost the whole of trade was concentrated in the hands of British companies, and foreign shipping lines facilitated British colonial interests rather than Indian interests. But during the war period, India accumulated huge sterling balances due to the surplus on trade account and war supplies to the United Kingdom. The war-time controls on trade were regularized later by passing The Import and Export (Control) Act of 1947 as ‘Controlled’ trade became the order of the day in the post-war period. Protection granted to the Indian companies necessitated a wide network of controls on trade. With the inception of planning in 1951, the trade policy had shifted its emphasis from a positive trade balance to the immediate needs of development according to the priorities of the plan. Both imports and exports were low during 1951–56, due to the prevailing trade controls. But some export promotion councils and commodity boards were set up, export quotas were increased, and the export policy in general was liberalized. During the Second Plan 1956-61, in addition to export promotion, import substitution was also pursued. Import restrictions were tightened and a policy of imports on a deferred payment basis was initiated and an institutional framework for exports was strengthened by setting up of a Foreign Trade Board in 1957 which was later replaced by the Board of Trade in 1962. Nineteen Export Councils with an apex body federation of the export organizations and seven Commodity Boards were set up. Seven Development Councils were also organized to promote the export of heavy and light electrical, leather goods, art silk, drugs, and some non-traditional items.
During the Third Plan period (1961–66), the export promotion programme was further strengthened in terms of the institutional structure, incentives, and other policy measures. The Madalir Committee (1965) recommended that a selective approach should be adopted in respect of export incentives, fixation of minimum and maximum prices, quality controls, inspection, etc., designed to promote exports as a long-term strategy.

The institutional support to export promotion was strengthened during the tenure of the Fourth to Sixth Plan period. The Trade Development Authority (TDA) was set up to help the medium and small-scale entrepreneurs to develop their export potential. Package assistance was provided to them by TDA, starting with market information and extending up to the execution of export orders. Similar assistance was provided to small scale entrepreneurs by the State Trading Corporation of India Ltd. (STC) under a single window. It should be noted here that STC and MMTC are canalizing agencies for a number of import and export items and have been entrusted with export promotion activities.

### 12.2.3 Structural Changes in India’s Foreign Trade Policy

The structural changes as made in the trade policy of India since Independence can be accounted for by the following factors:

(a) Change of hands from foreign nationals to Indian nationals in respect of the export houses, industrial houses, and companies.

(b) British and foreign shipping were replaced by Indian shipping lines. The importance of foreign shippers has declined in India’s trade.

(c) Banking and insurance have been taken over by Indian hands and have since been nationalized in the interest of the country.

(d) Industrialization in the country and the diversification of our industrial base has led to diversification in the trade pattern. Despite the importance of agriculture in our economy, growth of industrialization in the post-war period had brought about some structural changes in the trade pattern, both in exports and imports.

#### Check Your Progress

1. What do you mean by a country’s trade policy?
2. Explain the role of foreign trade in the national economy?
3. List the structural changes as made in the trade policy of India since Independence.
12.3 BALANCE OF PAYMENTS

No country is self-sufficient and the interdependence of countries is reflected in the international economic and commercial transactions. An economic transaction is an exchange of value or transfer of a title to a good or an asset. A commercial transaction refers to the exchange of a good or service for money which results in the payment of currency or monetary assets, thus leading to financial flows. Resource flows from one country to another due to the purchase and sale of financial claims, are referred to as financial transactions. The international exchange of goods for goods, services for services, and goods and services for money are all referred to as international economic and commercial transactions.

Balance of payments of a country has been defined as a 'systematic record of all economic transactions between the residents of the reporting country and residents of foreign countries. It includes both visible and invisible transactions'.

The fundamental reason why foreign trade benefits an economy is due to the so-called principle of comparative advantage. If different countries concentrate on providing products and services in which they have comparative advantages arising out of differences in resources, costs, or technology, then international trade can be beneficial to all the countries, across the world. Positively concluding that international trade benefits an economy, the question of external receipts and payments has to be considered. It is customary to classify a country’s external receipts and payments under two broad headings, Current account and Capital account.

The current account is split under two heads—merchandise trade and invisibles. Of the two, merchandise trade comprises export and import of goods. The difference between the two is commonly referred to as the surplus or deficit trade balance. It is customary to report imports on CIF (Cost, Insurance, and Freight) and exports on an FOB (Free On Board) basis for calculating the trade balance.

Invisibles comprise current international payments for items other than merchandise exports or imports. Some of the more important items under the head ‘invisibles’ comprise travel, transportation, interest and dividend payments, etc. Merchandise trade and invisibles together comprise the current account of a country and the difference gives the current account surplus or deficit.

Transfers on capital account include external borrowings or repayments of external borrowings, external investments or disinvestments, etc. The balance on current account and capital together result in the country’s reserves of foreign exchange going up or down correspondingly. A current account deficit may be combined with a higher capital account surplus (i.e. external borrowings in excess...
Foreign Trade

NOTES

The current account deficit or surplus of a country can also be looked at in another way. In macroeconomics, national accounting terms the current account as a mirror image of the difference between domestic savings and domestic investments. If domestic savings exceed domestic investments, a surplus on current account gets created.

This accounting identity arises because of the manner in which the Gross National Product (GNP) of a country is calculated. GNP calculations can be made either by following the ‘flow of product’ approach or by the ‘earnings and cost’ approach. The former method includes an item termed ‘foreign investment’, being the excess of exports of goods and services over imports. In national accounting terms, the GNP of a country by both approaches has to be identical. Starting with this equation, it is easy to establish the accounting identity between the balance on current account and the gap between domestic savings and domestic investments.

The items included in the balance of payments of any country are payments for merchandise imports and receipts for merchandise exports, loans to and investments in foreign countries and enterprises, foreign investments in domestic enterprises, borrowings from foreign countries, tourist expenditures—both by domestic tourists abroad and foreign countries, tourist expending country, money paid to foreign carriers, and receipts for foreign goods carried in national bottoms, cable and telegraph payments to foreign banks, expenses on foreign embassies established in the home country, interest and dividend payments, and other similar items. The two sides of a balance of payments must always balance, i.e., payments to be made to outsiders must equal the receipts from outsiders. The reason is to be found in the simple fact that for everything one gets, he can expect to receive something in return. Ordinarily, balance of payments is prepared for a period of one year, but a quarterly balance of payments is also common.

The main purpose of balance of payments is to inform the government of the international position of the nation and to help it in its formulation of monetary, fiscal, and trade policies. Like GDP (Gross Domestic Product), a nation’s balance of payments is a system that accounts for the flow of income and expenditures. Unlike GDP, however, balance of payments includes the flow of financial assets. Governments also regularly consult the balance of payments of important trade partners for making policy-decisions. The information contained in a nation’s balance of payments is indispensable to banks, firms, and individuals directly or indirectly involved in international trade and finance.
Monetary authorities of the reporting country should know the receipts and payments as between the reporting country and others so as to assess the impact of such flows on domestic money supply and on the savings of the economy. Besides, economists use this data to study the impact of foreign transactions on the national income of the reporting country—their impact on the current income and expenditure (current account) and on the assets and liabilities of the country (capital side).

The monetary and fiscal policies and the foreign exchange policy are formulated or reformulated on the basis of this data. It can thus be concluded that the balance of payments data is very useful from the point of view of formulation and operation of the domestic economic policy.

12.3.1 Features of the Balance of Payments
The features of the balance of payments need to be described in this regard.

1. Economic transactions
The statement is a summary of the economic transactions of the country with the outsiders. An economic transaction arises when values are exchanged or moved between nations. These may arise due to the following:

(i) Movement of goods in the form of exports and imports
(ii) Rendering services abroad and using foreign services
(iii) Gifts/grants from one country to another
(iv) Investments made abroad or received from abroad
(v) Income on investments received from abroad or remitted abroad
(vi) Increase or decrease in the international reserves of the country

Transactions between residents and non-residents
Generally, transactions which take place between the residents of a country with the residents of other countries are recorded in the balance of payments. Residents may refer to the individuals, institutions, corporate bodies, government departments, etc., domiciled in the country. Units or branches of multinational companies domiciled in the country are also known as residents and their transactions with their parent or branches abroad are reflected in the balance of payments. If the economic transaction is between residents only, it is not included in the balance of payments. For instance, the sale of gold in the domestic market will not find a place in the balance of payments. There are, however, certain exceptions to the resident–non-resident basis of balance of payments. If the gold is sold to the central bank of the country, the monetary gold of the country increases. It appears in the balance of payments. Similarly, foreign assets exchanged between residents may be included in the balance of payments.
2. A flow statement

A balance of payments is a compilation of the flow of economic transactions of the country during the period and not a statement of the position as on a particular date. It is more like the funds flow statement of a company, rather than a balance sheet. For instance, if the balance of payments shows US $400 million as a plus in the non-resident deposits, it means the balances held by the non-residents of the country with banks in India has changed during the period by US $400 million; it does not mean that the aggregate of such balances is US $400 million.

3. Periodicity

Normally, the balance of payments statement is prepared covering a period of one year. However, depending upon the requirement of the government, the statement may be prepared for shorter periods also such as six months, a quarter or even a month.

4. Components

The balance of payments statement consists of three major components as follows:

(i) Current account
(ii) Capital account
(iii) Official reserves account

Earlier, the balance of payments used to be divided into two accounts—current account and capital account. The present trend is to divide the capital account further into two accounts and show the details of the official reserves account separately.

5. Current Account

The current account of the balance of payments refers to the transactions pertaining to goods and services, income, and current transfers. In other words, it covers all transactions between residents and non-residents, and other financial items.

6. Merchandise Trade

Item (I) in the statement, merchandise, represents the export and import of commodities from/into India. The credit item represents exports and the debit item represents imports. The net balance, being the difference between exports and imports is known as the balance of trade.

The values of exports are shown at FOB prices, i.e., excluding the cost of transportation from abroad. Imports represent CIF payment, i.e., including freight and insurance paid for imports. However, where freight and insurance on imports...
are paid separately to foreigners, these are included under ‘transportation’ and ‘insurance’.

7. Invisible

This item includes service, transfers, and investment income. It is titled invisible to distinguish it from merchandise trade, also known as visible trade.

Travel covers all the receipts and payments on account of international transportation services except for the freight on imports invoiced CIF/CFR as included under import payments. The credits include expenses of foreign transport companies in India, receipt of foreign earnings of Indian transport companies and other receipts. The debits include expenses of Indian companies abroad, payments to foreign transport companies, etc.

Government is related to the receipts and payments on government account which is not included elsewhere as well as receipts and payments on account of maintenance of embassies and diplomatic mission and offices of international institutions such as UNO, WHO, etc. Credits include the allocations made to the US embassy expenditure in India out of the rupee proceeds of sales in India, of the surplus US agricultural commodities as under the PL 480 agreement. Miscellaneous items as included under this refer to the receipts and payments with respect to services like agency services, professional services, technicians, subscription for periodicals, royalties, etc.

Transfers of payments, also known as unilateral transfers refer to the receipts and payments without a quid pro quo. The items included under this are aid and grants received from foreign governments, repatriation of savings, remittances for family maintenance, migrants’ transfer, contributions and donations to religious organizations and charitable organizations, etc.

Investment income as included under this refer to the remittances, receipts and payments due to profits, interest, dividends, and discounts, which are inclusive of interest charges, and commitment charges on foreign loans including those from the International Monetary Fund.

Balance of payment and balance of trade

For decision-making with respect to the economic policy, it is not the absolute figure of exports/receipts or imports/payments that is required. It is the net difference between the two that is seen to be the major deciding factor for policies and procedures. Two important measures that are required for this purpose are, (i) balance of trade, and (ii) balance of payments.

The term balance of trade refers to the difference between the values of merchandise export and import and other visible items. When a country’s aggregate
exports are in excess of its aggregate imports, then it is said to have a favourable or positive or surplus balance of trade. In case its aggregate imports are more than its aggregate exports, there is said to be unfavourable or negative or deficit balance of trade. The exports and imports of a country can never really be equal at any given point in time so the balance of trade will never balance. It will always be either favourable or unfavourable.

Balance of payments, on the other hand, is a more comprehensive term as it not just includes the visible trade but even the invisible items. Thus, it includes not just the figure of balance of trade but also that of the balance of invisibles. Since it mostly includes the net balance of items included in the current account, it is also known on ‘balance of payments on current account’. The total amounts receivable and payable in the current account will either show a positive (surplus) balance or a negative (deficit) balance.

8. Capital account

The capital account represents transfer 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 capital account transactions are short-term capital inflows and outflows for purposes, official purposes or banking purposes. Private flows of capital include private private company remittances for working capital purposes to subsidiaries or branches of foreign companies or short-term loans, grants, etc., from foreign banks, international financial institutions, foreign government, etc. These short-term flows may be for compensatory purposes on the government account. These can also be banking funds for short-term purposes.

Long-term capital movements can be private or governmental in nature. The private flows include loans and advances granted to private parties (buyer’s credit), investment in shares, bonds, debentures, etc., by Indians abroad or by foreigners in India, investment in joint ventures, consultancy, turnkey projects, deferred payment credits, etc. Such flows on official account also take place through government loans, credits, grants, etc., for private long-term purposes. Foreign investment in India is the amount invested by non-residents in the equality of entities in India. The difference between direct and portfolio investment reflects the intention of the investor. Direct investment reflects a lasting interest of the investor in the entity and his intention to take active part in the management of the company.

Investments in equity by the direct investor and the amounts accruing on the original investment but retained in the country fall under the category of direct investment. Portfolio investment covers transactions in equity securities other than direct investment. The investor does not intend to take part in the management of the company. Foreign investment abroad is the amount invested by residents in entities abroad.
Loans comprise external assistance, commercial borrowings, and short-term loans. External assistance refers to the borrowings from multilateral organizations like the World Bank and from bilateral sources, mainly on concessional terms. Commercial borrowings are debts owed to international banks, borrowings in bond markets, credits from export credit agencies, and loans provided on commercial terms by specialized multilateral or bilateral institutions like the International Finance Corporation. Short-term credit refers to credit that is repayable within one year. Banking capital covers the assets and liabilities of commercial banks, non-resident deposit accounts, and other financial institutions.

The capital account reflects the changes in foreign assets and liabilities of the country and affects its creditors/debtor position. An excess of foreign assets over foreign liabilities indicates a net creditor position and vice versa. Net changes in the current account are reflected by a corresponding and opposite change in the capital account, changing the foreign assets and liabilities position of the country. Current account is like an income and expenditure statement with surplus or deficit in it transferred to the capital account which is like a balance sheet. If all these accounts do not tally, errors and omissions are added to balance the corresponding column of balance of payments. In the economic sense, a country has a surplus or deficit in its balance of payments, when its transactions other than those merely financing the real transactions are not in balance. Those merely financing are said to be ‘below the line’ while others are ‘above the line’. The selection of items below the line is generally decided by each country, depending upon its requirements for the economic policy in the short-run and long-run.

The last item in the balance of payments other than ‘errors and omissions’ is the movement in foreign exchange reserves of the country, normally shown in the capital account. These reserves are in the form of foreign currencies, foreign assets, investments, and balances held abroad, or gold of the government, and official monetary agencies of a country.

12.3.2 Current Scenario of India’s Balance of Payments

According to the RBI, the highlights of India’s BOP during April-June 2017 were as follows:

- India’s current account deficit (CAD) at US$ 14.3 billion (2.4 per cent of GDP) in Q1 of 2017-18 increased sharply from US$ 0.4 billion (0.1 per cent of GDP) in Q1 of 2016-17 and US$ 3.4 billion (0.6 per cent of GDP) in Q4 of 2016-17.
- The widening of the CAD on a year-on-year (y-o-y) basis was primarily on account of a higher trade deficit (US$ 41.2 billion) brought about by a larger increase in merchandise imports relative to exports.
Foreign Trade

NOTES

12.3.3 Significance of Balance of Payments

The study of balance of payments has become a matter of great interest in the recent years to businessmen, bankers, and economists. The financial statement of a bank reveals the bank’s condition. Similarly, a country’s balance of payments reveals its financial position vis-à-vis foreign countries. In fact, it is so important that balance of payments is considered to be an economic barometer of a country’s health. It can furnish the key to understanding a country’s economic problems. It is of great value in forecasting a country’s business and economic conditions as well.
12.3.4 Accounting of Balance of Payments

Balance of payments is kept on a double entry book-keeping system with credits and debits of equal size. For every transaction, there is a corresponding entry on both the credit and the debit sides. Thus, if exports are made, there will be an entry of credit for outflow of goods on current account, and a corresponding entry of debit will be made for claim on a foreign company or country or increase in foreign assets or claims on foreigners. Similarly, imports will appear as a debit item for the inflow of goods, and the credit item, for which the payment is made, is shown by an increase in foreign liabilities, reduction of foreign assets or outflow of funds or claims. Thus, for every credit/debit entry on current account, there is a corresponding entry on capital account to match the former. In cases of unilateral transfers such as gifts and donations, there is no corresponding payment or change in assets or liabilities. The entries are donations or gifts on the debit side; for the credit, they are the flow of goods from out of the country. It is not always possible to match all debits with credits due to differences in sources and timing of events. A discrepancy might then arise, necessitating a balancing entry, namely, errors and omissions.

12.3.5 Source of Compilation

In case of countries that do not have exchange controls, statistical recording of balance of payments data is done by the government with the help of their statistical office. This in turn depends upon a host of private and government agencies, banks and companies. Each member country of the IMF (International Monetary Fund) is compiling this data for onward transmission to the fund and for their own records and use. In view of the crucial importance of such data for policy-making, planning, compilation and timely availability, balance of payments are considered to be of utmost importance.

The usual sources of compilation for any country are the government agencies and the monetary authorities of the country. The data is collected either on a statutory basis or on a voluntary basis from various private and government agencies, airways, ports, banks and financial institutions where exchange controls operate.

In India, the data is more easily available with the agencies entrusted with the operation of exchange controls, such as the monetary authority of the country and the banks.

12.3.6 Limitations in Compilation

A few limitations in the process of compilation of balance of payments are as follows:

(a) Not all transactions are reported through official channels, particularly those where there are no exchange and trade transactions.
(b) A time-lag between an actual transaction and its reporting is possible, thus, the balance of payments may not properly record the transactions during the period.

c) There could be under-invoicing or over-invoicing of goods and services, thus, they may not represent the true value of gain or loss to the country.

d) Sufficient details of all transactions are not available in certain cases, as, for example, in remittances, short-term capital inflows or outflows, gifts, and samples, particularly in respect of services or invisible items.

Errors and omissions are a major component of the balance of payments. If such limitations are substantial then it is fully possible that debits and credits may not tally during a particular period of time.

12.3.7 Balance of Payments Data

As referred earlier, there are continuous interactions between the domestic sectors and the foreign sectors in every country. The movements in the balance of payments influence the savings and investments in the economy and the national income and expenditure of the country. The data is useful to estimate and plan for the following:

(a) Savings gap
(b) Foreign exchange gap
(c) Investment outlays

Each of the sectors has some savings and investments and while some are net savers, others are not investors. In India, the foreign sector has been a net saver for some time and this promotes investment by other sectors of the economy. Such investment helps in the growth of income and employment in the economy. Besides, these inflows relive the balance of payments constraint (or foreign exchange gap) of the developing country. This is due to the absence of an adequate import capacity. The inadequacy of foreign exchange reserves would stand in the way of growth of income and employment of these countries. They further promote market specialization and larger scale production in the world as a whole. The data is thus useful for the formulation of savings and investment policy, planning for the growth of the economy, internal monetary policy, fiscal policy, and more so in case of the foreign exchange policy. The trends in balance of payments have repercussions on the internal and international monetary scene and influence the foreign exchange, monetary and fiscal policies of a country and the overall growth of its economy.
12.3.8 Mechanism of Adjustment

When entries are made on a double-entry basis, credits and debits must tally. It means that the balance of payments must always balance. But this is only in the accounting sense. In the economic sense, we need to understand the mechanism of adjustment, i.e., how are the forces operating towards balancing the inflows and the outflows of a country when there can be larger exports than imports (a positive trade balance) or larger invisible exports over imports (or a positive invisible trade balance) or a larger current account balance? Normally, a deficit in current account can be made good (if not due to statistics errors or omissions) by the outflow of monetary gold, short-term credits or a loss of foreign exchange assets or an increase in foreign exchange liabilities. If the short-term credits and inflows of funds are autonomous and not induced for financing a deficit on other accounts, then these will be a part of regular the balance of payments. Leaving aside such deliberate efforts in balancing due to induced flows of funds, the mechanism of adjustment works automatically through price changes and income changes or both.

12.3.9 Adjustment of Balance of Payments under the Gold Standard

A short term deficit can be met by any one or more of the following:

1. A decline in foreign balances
2. Export of gold
3. Sale of domestically held securities in an international market
4. Short-term borrowings

The first three sources are called international reserves. When the disturbances are purely temporary, they can be met by drawing upon the country’s international reserves, or by borrowing.

If the deficit continues, a nation cannot go on indefinitely drawing upon its international reserves. After a relatively brief period, the country’s foreign balances will fall to an irreducible minimum. Its gold reserves will approach exhaustion and the sources of finance will not be willing to extend any further loans.

The initial contraction of money supply induced by the loss of gold and the necessity of protecting the country’s reserves will affect the major items in the balance of payments. The demand for goods will be reduced due to the decline in business activity; prices would fall; exports would be stimulated; imports will become less attractive; and gradually the rise in exports and the decline in imports will rectify the adverse balance of payments and a new equilibrium will be reached. With a surplus in balance of payments, the opposite mechanism would be set in motion.
12.3.10 Deficit Country and Surplus Country

1. Deficit country

A deficit country can adjust its deficit on a short-term basis by adopting the following measures:

1. Reduced foreign balances
2. Loss of gold
3. Higher interest rates
4. Short-term borrowings

If the deficit is to be adjusted on a long-term basis, the following measures can be adopted:

1. Higher interest rates leading to:
   (a) Decline in business activity
   (b) Reduction in incomes
2. Fall in price leading to:
   (a) Increase in exports
   (b) Decline in imports (new equilibrium)

2. Surplus country

A surplus country can adjust the surplus on a short-term basis by adopting the following measures:

1. Increase in foreign balances
2. Inflow of gold
3. Lower interest rates
4. Short-term lending

It can adjust the surplus on a long-term basis by adopting the following measures:

1. Lower interest rates leading to:
   (a) Increase in business activity
   (b) Increase in incomes
2. Increase in prices leading to:
   (a) Decline in exports
   (b) Increase in imports (new equilibrium)

However, these adjustment processes affect the country’s economy rather seriously. Modern economists and statesmen want international trade to be
regulated so that the adjustment of balance of payments does not lead to fluctuations in the economy. Hence, there is a tendency on the part of most governments to regulate foreign trade.

12.3.11 Income Adjustment

According to Hume’s law of no foreign savings, an increase in exports will increase income at home which in turn would lead to larger imports, which would balance the trade and payments. The amount by which an initial increase in exports would lead to an increase in income is called foreign trade multiplier—equal to $1/MPM$ where MPM is Marginal Propensity to import. This is the automatic adjustment process through income changes over a period of time. If the accelerator is also at work at home, then an increase in exports would lead to an increase in investment and to a further rise in income. If the foreign effects are also operating, then the original increase in exports may produce a larger increase in imports and lead to an unfavourable balance of trade or the effect will be indeterminate.

12.3.12 Balance of Payments: A Measurement of Deficits

The total of credits and debits in the current and capital accounts may not always balance. A surplus or deficit may take place which can be made good by a corresponding balancing entry, namely, official financing items. These items can be gold, IMF assistance or drawl on the country’s foreign assets.

For the purpose of economic analysis and policy formulation, there are various types of balances arising out of credits and debits in the balance of payments. A few such balances in this regard could be, (i) trade balance; (ii) current A/c balance; (iii) basic balance; (iv) balance in regular transactions; and (v) balance settled by official transactions.

12.3.13 Role of Service in Balance of Payments

In the recent years, trade in services has come into greater focus for many reasons. Firstly, the comparative advantage of trade in goods has reached a certain limit in many developing countries while the need for imports and exchange earnings continue to grow. It is in this context that these developing countries have to divert their attention to the promotion of the services sector in international trade. As regards the quantum of world trade in services, the value of trade has grown enormously during the last two decades. Here, the term ‘services’ is defined to include all current account items other than merchandise trade and pure transfer payments. It has to be noted here that this trade in services is more concentrated in industrialized and developed countries than the trade in merchandise items, and it will take a long time before developing countries can capture any important segment of world trade in this respect.
12.3.14 Non-Resident Inflows

Under invisibles, a substantial inflow took place in the recent years related to the non-official flows into India. Since 1982, the government has been encouraging these inflows through higher rates of interest on non-resident rupee accounts with banks than on domestic deposits. The RBI has also kept the SLR requirements for these deposits lower, at 25 percent as against the normal requirement against domestic deposits at 31–38 per cent. Such deposits are exempt from wealth tax purposes and interest income is also exempt for income tax purposes. The rates of interest on foreign currency non-resident account were, however, kept lower than that on Indian deposits due to the lower interest rates in the markets abroad for foreign currencies.

12.3.15 Allocation (Or Cancellation) of Special Drawing Rights (SDRs)

The allocation or cancellation of SDRs by the IMF involves the creation or extinction of the reserve assets by the IMF which form the part of a country’s holdings of official reserve assets. The allocation of SDRs result in an increase (debit) in the SDR holdings while cancellation results in a decrease (credit). The SDR holdings are a component of official reserve assets. In balance of payments, the offsetting entry to mark an increase in SDR holdings is provided by the item allocation (credit) while cancellation (debit) serves as an offsetting entry to mark a decrease in SDR holdings.

12.3.16 Monetization /Demonetization of Gold

Gold is both a commodity and a financial asset. When it is held by the Central Monetary Authority (in India, it is the Reserve Bank of India), as a part of its international reserves, it is treated as a financial asset and it is referred to as monetary gold. When it is held by any other party, including the government, it is treated like any other commodity. When the Central Monetary Authority acquires gold with a view to strengthen its international reserves, from a non-monetary sector, either from a resident or from a non-resident, it is referred to as monetization of gold. Demonetization refers to the reverse transfer of gold from a monetary sector to a non-monetary sector. It occurs when the Central Monetary Authority releases monetary gold from the holdings of official reserve assets for non-monetary purposes.

12.3.17 Unrequired Transfers

The unrequired transfers cover gifts, grants, migrants, transfers, taxes, etc., where one party provides something of an economic value to another without a *quid pro quo*, i.e., anything in return. The country receiving the grant or gift neither transfers nor promises to transfer anything in exchange. The lack of economic values on
one side is compensated by an entry which is referred to as unrequited transfers. In India’s balance of payments, the term ‘transfers’ is used in the same sense as of unrequited transfers.

12.3.18 Double Entry System of Recording
The balance of payments is based on the double entry system of bookkeeping. This is similar to the one used in business accounting. This is an internationally accepted convention for the balance of payments compilation. Transactions in a double entry accounting system are recorded in pairs of credit and debit entries of equal value. In the accounting sense, a country’s balance of payments refers to the transactions which have economic value, and in which the counterpart entries for credits or debits are automatically paired.

Under the double entry system, credit entries are used to record unrequited transfers, income receivable, and financial transactions involving either a decrease in assets or an increase in liabilities.

12.3.19 Balance of Payments And International Economic Linkages
The analytical framework that links the international flow of goods, services, and capital to domestic economic behaviour consists of a set of basic macroeconomic accounting identities. These basic identities that link national economic activity with the balance of payments account show that if a nation produces more than it spends, it will save more than it invests, export would be more than its imports, and thus wind up with a capital outflow. A nation that spends more than it produces will invest more than it saves, import more than it exports, and wind up with a capital inflow.

Check Your Progress
6. Explain the meaning of Balance of Payments.
7. List some of features of the balance of payments
8. Enumerate the usages of Balance of Payments data
9. In what ways can a short term deficit be met?
10. Explain the role of double entry system of bookkeeping.

12.4 EXIM (FOREIGN TRADE) POLICY
In pursuance of its liberalization programme launched in 1991 with the introduction of the New Industrial Policy and other economic trade reforms, the government
extended the validity of the Policy from three years to five years with the announcement of the five-year long Export-Import Policy, on 31 March 1992, coinciding with the Eighth Five Year Plan (1992–97). The basic objective of a five-year policy was two-fold. It reflects the priorities for development of the economy as set out in the five year plans. The third five-year EXIM Policy (2002–07) which coincided with the Tenth Five Year Plan, and which was valid up to March 2007, was terminated mid-length and replaced with the Foreign Trade Policy with effect from August 2004 up to 31 March 2009 on the assumption of power by the UPA Government. The current Foreign Trade Policy (2015–20) in force is effective from 1 April 2015 up to 31 March 2020.

Exim policy or foreign trade policy is a set of guidelines and instructions in matters related to the imports and exports of good, in India.

12.4.1 AIMS and Objectives

The country witnessed a robust growth in exports in the last five years mainly on account of the twin objectives, set out in the first Foreign Trade Policy 2004–09, namely (i) to double the country’s percentage share of global merchandise trade within five years, and (ii) use trade expansion as an effective instrument of economic growth and employment generation. The exports in the last five years registered more than two-fold increase from USD 63 billion in 2003-04 to USD 168 billion in 2008-09, thereby increasing our share in global merchandise trade to 1.45 per cent in 2008 from 0.83 per cent in 2003 (WTO estimates). Our share of global commercial services exports too rose from 1.4 per cent to 2.8 per cent during the same period. On the employment front, nearly 14 million jobs were created directly or indirectly as a result of augmented exports during the period.

The year 2009, however, witnessed one of the most severe global recessions in the post-war period which affected almost all the countries and hitting all the major economic indicators of industrial production, trade, capital flows, unemployment, per capita investment and consumption. Consequently, the WTO and the IMF have estimated a projected global trade decline by 9 per cent and over 11 per cent in volume terms. India has not been an exception to the unprecedented economic slow-down faced by the entire world.

To arrest and reverse the declining trend of exports and to provide additional support especially to those sectors which have been hit badly by recession in the developed world, and also to double our share in global trade by 2020, the current Foreign Trade Policy 2009–14 has come up with short term and long-term objectives. The short-term objective of the Policy is to achieve an annual export growth of 15 per cent with an annual export target of USD 200 billion by March 2011, while for the remaining three years, i.e. up to 2014 the annual export growth
of 25 per cent per annum has been envisaged. Besides, it is expected to double our exports of goods and services by 2014. The long-term objective of the Policy is to double India’s share in global trade by 2020.

To meet these objectives of achieving the projected target, a mix of the following policy measures would be adopted by the government:

- Fiscal incentives
- Institutional changes
- Procedural rationalization
- Enhanced market access across the world and diversification of export markets
- Improvement in infrastructure related to exports
- Bringing down transaction costs
- Providing full refund of all indirect taxes and levies
- Goods and Services Tax (GST) to rebate all indirect taxes and levies on exports

### 12.4.2 Foreign Trade Policy (FTP) 2015-20

- The Foreign Trade Policy (FTP) 2015-20 was unveiled by the Government of India on April 1, 2015. Following are the highlights of the FTP:
  - FTP 2015-20 provides a framework for increasing exports of goods and services as well as generation of employment and increasing value addition in the country, in line with the ‘Make in India’ programme.
  - The Policy aims to enable India to respond to the challenges of the external environment, keeping in step with a rapidly evolving international trading architecture and make trade a major contributor to the country’s economic growth and development.
  - FTP 2015-20 introduces two new schemes, namely ‘Merchandise Exports from India Scheme (MEIS)’ for export of specified goods to specified markets and ‘Services Exports from India Scheme (SEIS)’ for increasing exports of notified services.
  - Duty credit scrips issued under MEIS and SEIS and the goods imported against these scrips are fully transferable.
  - For grant of rewards under MEIS, the countries have been categorized into 3 Groups, whereas the rates of rewards under MEIS range from 2 per cent to 5 per cent. Under SEIS the selected Services would be rewarded at the rates of 3 per cent and 5 per cent.
NOTES

- Measures have been adopted to nudge procurement of capital goods from indigenous manufacturers under the EPCG scheme by reducing specific export obligation to 75 per cent of the normal export obligation.
- Measures have been taken to give a boost to exports of defense and hi-tech items.
- E-Commerce exports of handloom products, books/periodicals, leather footwear, toys and customised fashion garments through courier or foreign post office would also be able to get benefit of MEIS (for values up to INR 25,000).
- Manufacturers, who are also status holders, will now be able to self-certify their manufactured goods in phases, as originating from India with a view to qualifying for preferential treatment under various forms of bilateral and regional trade agreements. This ‘Approved Exporter System’ will help manufacturer exporters considerably in getting fast access to international markets.
- A number of steps have been taken for encouraging manufacturing and exports under 100 per cent EOU/EHTP/STPI/BTP Schemes. The steps include a fast track clearance facility for these units, permitting them to share infrastructure facilities, permitting inter unit transfer of goods and services, permitting them to set up warehouses near the port of export and to use duty free equipment for training purposes.
- 108 MSME clusters have been identified for focused interventions to boost exports. Accordingly, ‘Niryat Bandhu Scheme’ has been galvanised and repositioned to achieve the objectives of ‘Skill India’.
- Trade facilitation and enhancing the ease of doing business are the other major focus areas in this new FTP. One of the major objective of new FTP is to move towards paperless working in 24x7 environment.

12.4.3 Major Changes in the Foreign Trade Policy, 2009–14

- DEPB (Duty Entitlement Pass Book) Scheme to continue up to December 2010.
- Income tax benefits under Section 10(A) for IT industry and under Section 10(B) for 100 per cent EoUs extended till 31 March 2011.
- Enhanced insurance coverage and exposure for exports through ECGC schemes ensured till 31 March 2010.
- Interest subvention scheme to continue.
- 15 per cent value addition stipulated on imported inputs under Advance Authorization to encourage value addition in manufactured exports.
Foreign Trade

1. Higher support for market and product diversification

- Twenty-six new markets have been added under the Focus Market Scheme. These include sixteen new markets in Latin America and ten in Asia-Oceania.
- The incentive available under the Focus Market Scheme (FMS) and the Focus Product Scheme (FPS) raised from 2.5 – 3 per cent and from 1.25 – 2 per cent respectively.

- Enhancement of incentive rates for exports to emerging markets of Africa, Latin America, Oceania and CIS countries. Duty credit scrips for FMS increased from 2.5 per cent to 3 per cent and for FPS from 1.25 per cent to 2 per cent.
- Additional resources made available under the MDA and MAI schemes.
- Six or more ‘Made in India’ shows to be organized across the world every year to promote Brand India.
- For the first time EPCG at Zero Duty introduced for certain sectors (engineering and electronic products, basic chemicals and pharmaceuticals, apparels and textiles, plastics, handicrafts, chemicals and allied products and leather and leather products) to facilitate technology upgradation for exporters to be globally competitive.
- Status holders to import capital goods duty free (through Duty Credit Scrips equivalent to 1 per cent of their FOB value of exports in previous year) of specified product groups.
- Additional focused support and incentives to units in ‘Towns of Export Excellence’ for upgradation of export infrastructure.
- Encouragement to production and export of ‘green products’ through measures such as phased manufacturing programme for green vehicles, zero-duty EPCG scheme, and incentives for exports.
- Setting up of the Directorate of Trade Remedy Measures to facilitate MSMEs in availing their rights through trade remedy instruments under the WTO framework.
- Reduction in the transaction cost and institutional bottlenecks.
- Time-bound implementation of e-trade projects.
- EDI to be extended to additional ports/locations.
- Inter Ministerial Committee to serve as a single window mechanism for resolution of trade-related grievances.

NOTES

12.4.4 Highlights of the Foreign Trade Policy, 2009–14
A large number of products from various sectors have been included for benefits under the FPS. These include engineering products (agricultural machinery, parts of trailers, sewing machines, hand tools, garden tools, musical instruments, clocks and watches, railway-locomotives, etc.), plastic (value-added products), jute and sisal products, technical textiles, green technology products (windmills, wind turbines, electric-operated vehicles, etc.), project goods, vegetable textiles and certain electronic items.

The Market Linked Focus Product Scheme (MLFPS) has been greatly expanded by inclusion of products classified under as many as 153 ITC (HS) Codes at 4-digit level. Some major products include pharmaceuticals, synthetic textile fabrics, value-added rubber products, value-added plastic goods, textile made-ups, knitted and crocheted fabrics, glass products, certain iron and steel products and certain articles of aluminium, among others. Benefits to these products will be provided, if exports are made to thirteen identified markets (Algeria, Egypt, Kenya, Nigeria, South Africa, Tanzania, Brazil, Mexico, Ukraine, Vietnam, Cambodia, Australia and New Zealand).

MLFPS benefits are also extended for export to additional new markets for certain products. These products include auto components, motor cars, bicycle and its parts and apparels, among others.

A common simplified application form has been introduced for taking benefits under FPS, FMS, MLFPS and VKGUY.

Higher allocation for Market Development Assistance (MDA) and Market Access Initiative (MAI) schemes is being provided.

2. Technological upgradation

To aid technological upgradation of our export sector, the EPCG Scheme at Zero Duty has been introduced. This Scheme will be available for engineering and electronic products, basic chemicals and pharmaceuticals, apparels and textiles, plastics, handicrafts, chemicals and allied products and leather and leather products (subject to exclusions of current beneficiaries under the Technological Upgradation Fund Schemes (TUFS), administered by the Ministry of Textiles and beneficiaries of the Status Holder Incentive Scheme in that particular year). The Scheme shall be in operation till 31 March 2011.

3. Towns of export excellence

Jaipur, Srinagar and Anantnag have been recognized as ‘Towns of Export Excellence’ for handicrafts; Kanpur, Dewas and Ambur have been
recognized as “Towns of Export Excellence” for leather products; and Malihabad for horticultural products.

4. EPCG scheme relaxations

- To increase the life of existing plant and machinery, export obligation on import of spares, moulds, etc. under the EPCG Scheme, has been reduced to 50 per cent of the normal specific export obligation.
- Taking into account the decline in exports, the facility of Re-fixation of Annual Average Export Obligation for a particular financial year in which there is decline in exports from the country, has been extended for the five-year policy period 2009–14.

5. Support for green products and products from the North East

- The Focus Product Scheme benefit extended for export of “green products”; and for exports of some products originating from the North East.

6. Status holders

- To accelerate exports and encourage technological upgradation, additional duty credit scrips shall be given to status holders at the rate of 1 per cent of the FOB value of past exports. The duty credit scrips can be used for procurement of capital goods with Actual User condition. This facility shall be available for sectors of leather (excluding finished leather), textiles and jute, handicrafts, engineering (excluding iron and steel and non-ferrous metals in primary and intermediate forms, automobiles and two-wheelers, nuclear reactors and parts, and ships, boats and floating structures), plastics and basic chemicals (excluding pharma products) [subject to exclusions of current beneficiaries under Technological Upgradation Fund Schemes (TUFS)]. This facility shall be available till 31 March 2011.
- Transferrability for the duty credit scrips being issued to status holders under VKGUY Scheme has been permitted. This is subject to the condition that transfer would be only to status holders and scrips would be utilized for the procurement of cold chain equipment only.

7. Stability/continuity of the Foreign Trade Policy

- To impart stability to the Policy regime, Duty Entitlement Passbook (DEPB) Scheme is extended beyond 31 December 2009 till 31 December 2010.
- Interest subvention of 2 per cent for pre-shipment credit for seven specified sectors has been extended till 31 March 2010 in the Budget 2009-10.
Income tax exemption to 100 per cent EOUs and to STPI units under Section 10B and 10A of the Income Tax Act, has been extended for the financial year 2010-11 in the Budget 2009-10.

The Adjustment Assistance Scheme initiated in December 2008, to provide enhanced ECGC cover at 95 per cent to the adversely affected sectors, is continued till March 2010.

8. Sector-specific initiatives

(i) Marine sector

- Fisheries have been included in the sectors which are exempted from maintenance of average EO under the EPCG Scheme, subject to the condition that fishing trawlers, boats, ships and other similar items shall not be allowed to be imported under this provision. This would provide a fillip to the marine sector which has been affected by the present downturn in exports.
- Additional flexibility under the Target Plus Scheme (TPS)/Duty Free Certificate of Entitlement (DFCE) Scheme for status holders has been given to the marine sector.

(ii) Gems and jewellery sector

- To neutralize duty incidence on gold jewellery exports, it has now been decided to allow duty drawbacks on such exports.
- In an endeavour to make India an international trading hub in diamonds, it is planned to establish ‘Diamond Bourse(s)’.
- A new facility to allow import on consignment basis of cut and polished diamonds for the purpose of grading/certification purposes has been introduced.
- To promote the export of gems and jewellery, the value limits of personal carriage have been increased from US$ 2 million to US$ 5 million in case of participation in overseas exhibitions. The limit in case of personal carriage, as samples, for export promotion tours, has also been increased from US$ 0.1 million to US$ 1 million.

(iii) Agriculture sector

- To reduce transaction and handling costs, a single window system to facilitate export of perishable agricultural produce has been introduced. The system will involve creation of multi-functional nodal agencies to be accredited by the APEDA.
(iv) Leather sector

- Leather sector shall be allowed re-export of unsold imported raw hides and skins and semi-finished leather from public bonded warehouses, subject to payment of 50 per cent of the applicable export duty.
- Enhancement of FPS rate to 2 per cent would also significantly benefit the leather sector.

(v) Tea

- Minimum value addition under advance authorization scheme for export of tea has been reduced from the existing 100 – 50 per cent.
- DTA sale limit of instant tea by EOU units has been increased from the existing 30 – 50 per cent.
- Export of tea has been covered under the VKGUY Scheme benefits.

(vi) Pharmaceutical sector

- The export obligation period for advance authorizations issued with 6-APA as input has been increased from the existing six months to thirty-six months, as is available for other products.
- The pharma sector extensively covered under the MLFPS for countries in Africa and Latin America; some countries in Oceania and Far East.

(vii) Handloom sector

- To simplify claims under FPS, the requirement of ‘Handloom Mark’ for availing benefits under FPS has been removed.

9. EOU

- EOU have been allowed to sell products manufactured by them in DTA upto a limit of 90 per cent instead of the existing 75 per cent, without changing the criteria of ‘similar goods’, within the overall entitlement of 50 per cent for DTA sale.
- To provide clarity to the customs field formations, DOR shall issue a clarification to enable procurement of spares beyond 5 per cent by granite sector EOUs.
- EOUs will now be allowed to procure finished goods for consolidation along with their manufactured goods, subject to certain safeguards.
- During this period of downturn, the Board of Approvals (BOA) to consider, extension of block period by one year for calculation of the net foreign exchange earning of EOUs.
Foreign Trade

NOTES

10. Thrust to value-added manufacturing

- The EOUs will now be allowed CENVAT credit facility for the component of SAD and Education Cess on DTA sale.

11. DEPB

- The DEPB rate shall also include factoring of custom duty component on fuel where fuel is allowed as a consumable in standard input-output norms.

12. Flexibility provided to exporters

- Payment of customs duty for Export Obligation (EO) shortfall under Advance Authorization/DFIA/EPCG Authorization has been allowed by way of debit of duty credit scrips. Earlier, the payment was allowed in cash only.
- Import of restricted items, as replenishment, shall now be allowed against transferred DFIAs, in line with the erstwhile DFRC scheme.
- Time limit of sixty days for re-import of exported gems and jewellery items, for participation in exhibitions has been extended to ninety days in case of USA.
- Transit loss claims received from private approved insurance companies in India will now be allowed for EO fulfilment under the export promotion schemes. At present, the facility has been limited to public sector general insurance companies only.

13. Waiver of incentives recovery on RBI specific write-off

- In cases, where the RBI specifically writes off the export proceeds realization, the incentives under the FTP shall now not be recovered from the exporters subject to certain conditions.

14. Simplification of procedures

- To facilitate duty-free import of samples by exporters, the number of samples/pieces has been increased from the existing 15 – 50. Customs clearance of such samples shall be based on declarations given by the importers with regard to the limit of value and quantity of samples.
• To allow exemption for up to two stages from payment of excise duty in lieu of refund, in case of supply to an advance authorization holder (against invalidation letter) by the domestic intermediate manufacturer. It would allow exemption for supplies made to a manufacturer, if such manufacturer in turn supplies the products to an ultimate exporter. At present, exemption is allowed up to one stage only.

• Greater flexibility has been permitted to allow conversion of shipping bills from one export promotion scheme to another scheme. Customs shall now permit this conversion within three months, instead of the present limited period of only one month.

• To reduce transaction costs, dispatch of imported goods directly from the port to the site has been allowed under the Advance Authorization Scheme for deemed supplies. At present, the duty-free imported goods could be taken only to the manufacturing unit of the authorization holder or its supporting manufacturer.

• Disposal of manufacturing wastes/scrap will now be allowed after payment of applicable excise duty, even before fulfilment of export obligation under the Advance Authorization and EPCG Scheme.

• Regional authorities have now been authorized to issue licence for import of sports weapons by ‘renowned shooters’, on the basis of NOC from the Ministry of Sports and Youth Affairs. Hence, there will be no need to approach the DGFT (Hqrs.) in such cases.

• The procedure for issue of Free Sale Certificate has been simplified and the validity of the certificate has been increased from 1 – 2 years. This will solve the problems faced by the medical devices industry.

• Automobile industry, having their own R&D establishment, would be allowed free import of reference fuels (petrol and diesel), up to a maximum of 5 KL per annum, which are not manufactured in India.

• Acceding to the demand of trade and industry, the application and redemption forms under EPCG scheme have been simplified.

15. Reduction of transaction costs

• No fee shall now be charged for granting incentives under the schemes. Further, for all other authorizations/licence applications, the maximum applicable fee is being reduced to ₹100,000 from the existing ₹1,50,000 (for manual applications) and ₹50,000 from the existing ₹75,000 (for EDI applications).
• To further EDI initiatives, export promotion councils/commodity boards have been advised to issue RCMC through a Web-based online system.
• Electronic message exchange between customs and DGFT in respect of incentive schemes have become operational by 31 December 2009. This will obviate the need for verification of scrips by customs facilitating faster clearances.
• For EDI ports, with effect from December 2009, double verification of shipping bills by customs for any of the DGFT schemes shall be dispensed with.
• In cases, where the earlier authorization has been cancelled and a new authorization has been issued in lieu of the earlier authorization, application fee paid already for the cancelled authorization will now be adjusted against the application fee for the new authorization subject to payment of minimum fee of ₹ 200.
• An inter-ministerial committee will be formed to redress/resolve problems/issues of exporters.
• An updated compilation of Standard Input Output Norms (SION) and ITC (HS) Classification of Export and Import Items has been published.

16. Directorate of ‘Trade Remedy Measures’
• To enable support to Indian industry and exporters, especially the MSMEs, in availing their rights through trade remedy instruments, a ‘Directorate of Trade Remedy Measures’ shall be set up.

Check Your Progress
6. List the policy measures to double India’s share in global trade by 2020.

12.5 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. A country’s trade policy refers to the set of policies which govern the external sector of its economy. In a country like India, trade policy is one of the many economic instruments which is used to suit the requirements of economic growth. The main objectives of India’s trade policy have been to promote exports and restrict the level of imports to the level of foreign exchange available to the government.
2. The role of foreign trade in the national economy can be adjudged by the proportion of foreign trade to national income. As a proportion of national income, exports were about 8 per cent in 1951–52 which fell to 4.4 per cent in 1971–72 but rose again to around 8 per cent in the 1970s and 1980s due to faster growth of exports. Imports as a percentage of national income have also declined from 10.7 per cent in 1951–52 to 4.9 per cent in 1971–72 but stood at 9–10 per cent in the 1970s.

In 1993–94, exports as a percentage of national income stood at 8.7 per cent while the corresponding percentage for imports was 9.1 per cent. This data signifies that, first, now India is less dependent on the world economy than it was in the earlier decades.

3. The structural changes as made in the trade policy of India since Independence can be accounted for by the following factors:
   (a) Change of hands from foreign nationals to Indian nationals in respect of the export houses, industrial houses, and companies.
   (b) British and foreign shipping were replaced by Indian shipping lines. The importance of foreign shippers has declined in India’s trade.
   (c) Banking and insurance have been taken over by Indian hands and have since been nationalized in the interest of the country.
   (d) Industrialization in the country and the diversification of our industrial base has led to diversification in the trade pattern. Despite the importance of agriculture in our economy, growth of industrialization in the post-war period had brought about some structural changes in the trade pattern, both in exports and imports.

4. Balance of payments of a country has been defined as a ‘systematic record of all economic transactions between the residents of the reporting country and residents of foreign countries. It includes both visible and invisible transactions’. The fundamental reason why foreign trade benefits an economy is due to the so-called principle of comparative advantage. If different countries concentrate on providing products and services in which they have comparative advantages arising out of differences in resources, costs, or technology, then international trade can be beneficial to all the countries, across the world.

5. Some of the features of the balance of payments are:
   - Economic transactions
   - A flow statement
   - Periodicity
6. To meet these objectives of achieving the projected target, a mix of the following policy measures would be adopted by the government:

- Fiscal incentives
- Institutional changes
- Procedural rationalization
- Enhanced market access across the world and diversification of export markets
- Improvement in infrastructure related to exports
- Bringing down transaction costs
- Providing full refund of all indirect taxes and levies
- Goods and Services Tax (GST) to rebate all indirect taxes and levies on exports

12.6 SUMMARY

- The main objectives of India’s trade policy have been to promote exports and restrict the level of imports to the level of foreign exchange available to the government. During the middle of the Second Plan, the importance of exports in the context of developmental planning was first recognized.

- Import policy is an adjunct to the export policy and both are broadly coordinated so as to keep the receipts and payments in balance. While the export policy aims at the promotion of exports, the import policy encourages import substitution so that there is minimum withdrawal of foreign exchange reserves.

- During the Second Plan 1956-61, in addition to export promotion, import substitution was also pursued. Import restrictions were tightened and a policy of imports on a deferred payment basis was initiated and an institutional
Foreign Trade

framework for exports was strengthened by setting up of a Foreign Trade Board in 1957 which was later replaced by the Board of Trade in 1962.

- Tariffs should be used as a control mechanism rather than using the import licensing system. In order to remove the uncertainties which are associated with annual policy changes, the import-export policy should be announced on a three-year basis.

- The Seventh Plan started with the projections of 7 per cent growth in the volume of exports and 5.8 per cent growth in imports. The export growth of the projected range is expected to be achieved by concentrating on the ‘thrust’ industries which have a demonstrable and lasting comparative advantage.

- Trade policy reforms in India need to be seen in the light of similar efforts made in a large number of developing countries since the 1980s. A comparison of reduction in domestic protection by various developing countries vis-à-vis India, based on certain documents of the WTO, shows that the progress in trade liberalization in India has been more pronounced than that in many other similarly-paced countries.

- Balance of payments of a country has been defined as a ‘systematic record of all economic transactions between the residents of the reporting country and residents of foreign countries. It includes both visible and invisible transactions’.

- Governments also regularly consult the balance of payments of important trade partners for making policy-decisions. The information contained in a nation’s balance of payments is indispensable to banks, firms, and individuals directly or indirectly involved in international trade and finance.

- The term balance of trade refers to the difference between the values of merchandise export and import and other visible items. When a country’s aggregate exports are in excess of its aggregate imports, then it is said to have a favourable or positive or surplus balance of trade.

- Exim policy or foreign trade policy is a set of guidelines and instructions in matters related to the imports and exports of goods, in India.

12.7 KEY WORDS

- A buffer stock: It is an attempt to use commodity storage for the purposes of stabilising prices in an entire economy or, more commonly, an individual (commodity) market.
Foreign Trade

- **A free-trade zone (FTZ):** It is a specific class of special economic zone, a geographic area where goods may be landed, stored, handled, manufactured, or reconfigured, and re-exported under specific customs regulation and generally not subject to customs duty.

- **Non-Tariff Measures (NTMs):** These are trade barriers that restrict imports or exports of goods or services through mechanisms other than the simple imposition of tariffs.

- **Merchandise Trade:** It represents the export and import of commodities from into India.

- **Invisible:** This item includes service, transfers, and investment income. It is titled invisible to distinguish it from merchandise trade, also known as visible trade.

- **Foreign Trade Multiplier:** The amount by which an initial increase in exports would lead to an increase in income is called foreign trade multiplier—equal to 1/MPM where MPM is Marginal Propensity to import.

- **The SDR holdings:** These are a component of official reserve assets.

- **EOUs:** The Export Oriented Units (EOUs) scheme, introduced in early 1981, is complementary to the SEZ scheme.

12.8 SELF ASSESSMENT QUESTIONS AND EXERCISES

**Short-Answer Questions**
1. Write a short note on India’s foreign trade policy.
2. Explain the significance of foreign trade in the national economy.
3. Enumerate the framework of trade.
4. Write a brief note on India’s Trade Policy vis-à-vis other developing countries.
5. Explain the current account deficit with reference to Balance of Payments.
6. Analyse some of the features of the Balance of Payments.

**Long-Answer Questions**
1. Discuss India’s trade philosophy.
2. Write a comprehensive note on India’s trade strategies in the Seventh Plan.
3. Enumerate the main purpose of Balance of Payments.
4. Analyse the difference between Balance of payment and Balance of Trade.
5. Write an overview on Capital Account.
6. Analyse and critically evaluate the efficacy of EXIM Policy.

12.9 FURTHER READINGS

UNIT 13  FINANCE COMMISSION

13.0  INTRODUCTION

India is a federal nation where the Centre and the state governments have their role and responsibility to govern, mobilise resources and incur expenditure. However, to maintain balance between the central and state governments, Indian Constitution brought in a provision to have a constitutional body to ensure that states don’t incur expenditures disproportionate to their sources of revenue in the process of fulfilling their responsibilities. The result was the birth of Finance Commission in 1951. Article 280 of the Indian Constitution defines the scope of the commission.

A finance commission is an autonomous body which is governed by the government of India. Till date, fourteen Finance Commissions have been appointed and have submitted their reports. The recommendations of the 14th Finance Commission cover a five-year period from April 1, 2010 to March 31, 2015.

One of the main functions of Finance Commission is distribution of net proceeds of taxes between Center and the States, to be divided as per their respective contributions to the taxes. FC also determine factors governing Grants-in-Aid to the states. The Commission may be asked by the President to study specific problems and issues in the interest of sound finance of states and/or the Centre and make recommendations. However, the Commission is also generally put under obligation, while making its recommendations, to consider the resource-position of the Central Government and its needs, the existing practices regarding the determination and distribution of Central assistance for financing of State Plans.

Thus we see that in an ever-changing situation, especially in a developing economy like ours, Finance Commission provides a much needed flexibility in the interest of optimum distribution of national resources between different tiers of...
This unit discusses the evolution, scope and function of the Finance Commission and also highlights the key role this constitutionally formed body in maintaining a fiscal balance between the centre and various states.

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

- Understand the necessity for constituting the Finance Commission in India
- Get an insight into scope and role of the Finance Commission
- Take a historical view of Finance Commission
- Enumerate the Finance Commission’s jurisdiction
- Analyse the various constitutional provisions under the Finance Commission
- Understand the Finance Commission’s constraints and discretionary power
- Get an overview of the Finance Commission’s recommendations.

13.2 EVOLUTION, FUNCTION, PRINCIPLES AND CENTRE STATE RELATIONS

The Finance Commission (FC) is a salient feature of the Indian fiscal federalism. It is a ‘tenure’ body, that is, it is constituted for a specific period of time and with specified terms of reference (that is, the issues it is to study and make recommendations pertaining to them for a specified period). Under Article 280, a Finance Commission was to be appointed within two years of the commencement of the Constitution, and thereafter, every fifth year or earlier. Its working is further governed by the Finance Commission (Miscellaneous Provisions) Act, 1951. It is an advisory body and deals with the transfer of resources from the Centre to the states, determination of individual shares of states in the transferred resources, reviewing the financial situation of both the Centre and the states, and several other related issues and problems as mentioned in its terms of reference (ToR).

Once the FC has been constituted, final decisions regarding the transfer of resources from the Centre to the states can be taken only after consideration of its recommendations. Acceptance of its recommendations is not binding upon the Centre, but they are rarely rejected or modified.

13.2.1 Rationale

Merits. The institution of FC provides a much needed flexibility in the interest of optimum distribution of national resources between different tiers of governments in accordance with their respective needs. No permanently fixed distribution of
resources can meet the requirements of an ever-changing situation, especially in a developing economy like ours moving on a path of multi-directional development. The institution of FC provides a periodic review of the inter-governmental fiscal arrangements and identifies needed re-adjustments in them.

Demerits. However, it cannot be claimed that the FC is guaranteed to provide us with the best possible solution of all problems and issues. It also works under some inherent limitations. Amongst others, its recommendations cover only a portion of the total transfers from the Centre to states. Its estimates and projections are not flawless and the principles and criteria chosen by it for making recommendations are frequently rated sub-optimal by the critics. The FC is not a permanent body and there is no permanent secretariat or a data research wing to assist it.

History

Till date, fourteen Finance Commissions have been appointed and have submitted their reports. The recommendations of the FC-XIII cover a five-year period from April 1, 2010 to March 31, 2015.

The First FC was constituted on 22nd November 1951 and submitted its report at the end of December 1952. The Second FC was constituted on 1st June 1956 and submitted its report in September 1957. The Third FC was constituted on 2nd December 1960 and submitted its report on 14th December 1961. The Fourth FC was constituted on 5th May 1964 and its report was submitted on 12th August 1965. The Fifth FC was constituted on 29th February 1968 and its report came in on 31st July 1969. The Sixth FC was constituted on 28th June 1972 and its report was submitted on 28th October 1973 for the period 1974–75 to 1978–79. FC-VII was constituted on 22nd June 1977 and submitted its report on 28th October 1978 for 1979–84. The 8th FC was constituted on 20th June 1982 to make recommendations for the period 1984–89. It submitted an interim report on 14th November 1983 followed by the final report on 30th April 1984. The 9th FC was constituted on 17th June 1987. It was asked to submit two reports. The first report was submitted in July 1988 for the period 1989–90. The second report was submitted on 31st December 1989 for the period 1990–95. The FC-X was constituted on 15th June 1992 to make recommendations for the period 1st April 1995 to 31st March 2000. It submitted its Report on 26th November 1994. The FC-XI was constituted on 3rd July 1998 to make recommendations for the period 2000–2005. It submitted its Interim Report on 15th January 2000, its Final Report on 7th July 2000 and a Supplementary Report on 30th August 2000. FC-XII was constituted on 1st November 2002 under the Chairmanship of Dr. C. Rangarajan and submitted its report on 30th November 2004. FC-XIII was appointed on 13th November, 2007 (Chairman, Dr. Vijay Kelkar) and submitted its report on 29th December, 2009, its recommendations covering a period of five years from 1st April 2010 to 31st March 2015.
13.2.2 Jurisdiction

I. Resource Transfers

The FC recommends transfers from the Centre to states in two forms, namely, Tax-sharing and Grants. Their relevant details are as follows.

A. Tax-sharing

Tax sharing between the Centre and states underwent a fundamental transformation with the Constitutional (80th Amendment) in 2000 and 88th Amendment of 2003 enacted in 2004. The latter Amendment relates to levying of service tax by the Centre and its collection and appropriation by both the Centre and the states according to legislation enacted for this purpose by the Parliament.

Position Prior to Amendments

(1) **Income Tax.** The net proceeds of income tax (excluding surcharge on it) were shared with states on a mandatory basis. The Commission made recommendations regarding

- The proportion of collective share of states out of the ‘divisible pool’ of the net income tax proceeds; and
- The proportionate share of each individual state within the collective share of all states.

However, it could not recommend any change in the components or quantum of the divisible pool itself, such as the inclusion of corporation tax or surcharges in the divisible pool of income tax, or changes in exemptions and rate structure of income taxation.

(2) **Union Excise Duties.** Sharing of Union excise duties was not obligatory for the Centre. The President had the discretion to refer the question of their sharing with the states to the Commission. In effect, this matter was always included in its ToR. Here again the Commission recommended the sharing of net proceeds of these duties (excepting earmarked cesses) between the Centre and state, and the distribution of their collective share between individual states. It was not necessary for the Commission to recommend the sharing of all duties; or a common and uniform basis of their sharing. In this case, therefore, it could identify the shareable duties and the share of states in each of them.

(3) **Additional Duties of Excise.** Additional Duties of Excise were being levied by the Centre in lieu of sales tax by states on three items, namely textiles, tobacco including manufactured tobacco, and sugar. The proposal of the Centre to replace sales tax on all items with additional duties of excise, with later stand that at least five more commodities (namely, vanaspati, petroleum and petroleum products, paper and paper board, drugs and toilet
preparations, and cement) should be covered by this scheme, had been successfully opposed by the states. The FC, in this case, only determined the principles on which shares of individual states were to be determined in the net proceeds.

The Ninth FC was asked to study the feasibility of merging the Additional Duties of Excise with Basic Union Excise Duties and determining a suitable formula for compensating the states for their loss by allocating them a part of excise revenue. However, in the face of stiff opposition by the states, the Commission did not recommend this merger.

(4) Taxes under Art. 269. This Article contained a number of entries. The net proceeds of all taxes levied under this Article went to states and the FC was not authorised to recommend, on its own, on the removal, levy, or rate modification of any such tax. It only recommended the manner in which net proceeds of a tax of this category were to be divided between individual states. Over time, the Centre chose to levy only three taxes under this Article.

- Tax on railway passenger fares. It was levied in 1957 and repealed in 1961.
- Estate Duty. The budget for 1983–84 scrapped this duty in respect of agricultural lands (though a state subject, the Centre was levying this duty by virtue of enabling resolutions of the states to this effect), and the duty on properties other than agricultural lands was abolished in the budget for 1985–86.
- Within the overall programme of the adoption of Value Added Tax (VAT) by states, and introduction of Goods and Services Tax (GST), rate of Central Sales Tax (CST) was reduced to 2% w.e.f. 1/6/2008 and was expected to be reduced to 1% w.e.f. 1/4/2009 and to NIL on 1/4/2010. However, it continues to be at 2% even in 2012–13 and its abolition is contingent on the introduction of GST.

Position after Amendments

Consequent to 80th and 88th Amendments of the Constitution, all taxes and duties referred to in the Union List, except the duties and taxes referred to in Articles 268, 268(A)1 and 269, respectively, surcharges on taxes and duties, and any cess levied for specific purposes under any law made by Parliament are to be levied and collected by the Government of India and their net proceeds are to be shared with the states. The actual percentage of the divisible pool to be distributed among the states and their individual shares are to be determined by the President after considering the recommendations of the FC.

B. Grants from Centre to States

The Centre under various Constitutional provisions, extends grants to states for various purposes. These grants include both made on the recommendations of the
Finance Commission and on its own discretion. Over the last few years, grants are being made to the states so that the latter can help the local bodies.

(1) **Grants-in-aid of Revenues.** The FC, if asked by the President, estimates the revenue needs of states and recommends grants in aid of their revenues (that is, for meeting their revenue deficiency). It also lays down the principles which should govern these grants from the Centre to the states. Therefore, all states need not receive these grants and different states may receive different amounts. It, however, does not recommend grants under *provisos* to Article 275(1).

(2) **Special-purpose Grants.** The FC can also recommend special-purpose grants to one or more states. The same may also be included in its terms of reference. States may receive these grants for helping the local bodies, for relief against natural calamities, for upgradation of administration or for other specified purposes, etc.

(3) **Discretionary Grants.** Discretionary grants under Article 282 do not come under the purview of the FC. But it may be asked by the President to recommend grants for purposes identified in its ToR in which case they no longer remain discretionary. For example, grant in lieu of a tax on railway passenger fares used to be added to the terms of reference of the Commission. However, with effect from 2000-01, this grant has come to an end.

II. **Other Matters**

The FC may be asked by the President to study specific problems and issues in the interest of sound finance of states and/or the Centre and make recommendations. Examples include the question of indebtedness of states to the Centre, the debt relief needed by states, financing of relief expenditure, financing of schemes for the upgradation of administrative services, maintenance of non-plan schemes and other capital assets, measures for improving the fiscal health of the Centre and the states, and so on.

However, it should be specifically noted that the Commission cannot recommend fresh loans from the Centre to states.

III. **Constraints**

The Commission may be put under specified restrictions in formulating its recommendations. For example, beginning with the FC-VII, every FC was required to use the population figures of 1971 in all cases where it used population as a factor in determination of devolution of the taxes, duties and grants in aid. The Commission is also generally put under obligation, while making its recommendations, to consider the resource-position of the Central Government and its needs, the existing practices regarding the determination and distribution of Central assistance for financing of State Plans, the need for ensuring reasonable...
returns on investments in state undertakings, the scope for better fiscal management by states and so on. Ninth FC was asked to adopt normative approach in its assessment of the projected revenues and expenditures of both Centre and states. Later FCs were asked to formulate a plan for restructuring of Centre and state finances so as to restore them back to sustainable fiscal health.

IV. Discretion

It is noteworthy that, in spite of several constraints, the FC is authorized to call for any relevant information needed by it. It can determine its own method of working and can receive evidence and memoranda from individuals, institutions, firms and official bodies, etc.

V. Choice of Criteria

At this stage, we may ask a question as to whether the FC should follow a set of some objective criteria in making its recommendations regarding resource transfers from the Centre to the states and the shares of individual states in the transferred resources. The answer is an emphatic yes. However, there is bound to be a difference of opinion regarding the

- Choice of these criteria,
- Their relative importance, and
- Their revision over time.

However, there has been no uniformity in the set of decisions and procedures adopted by the FCs.

13.2.3 The Finance Commission and Tax Sharing

As noted earlier, Constitution (80th Amendment) Act, 2000, brought about a fundamental shift in the sharing of tax proceeds between the Centre and the states. Prior to the 80th Amendment, the only taxes shared between the Centre and states were income tax, Central Excise Duties and Additional Duties of Excise in Lieu of Sales Tax on sugar, tobacco and textiles. It should also be noted that recommendations regarding the sharing of these taxes could vary from one tax to the other.

A. Income Tax

Before 80th Amendment, income tax was the only tax which was compulsorily shareable with the states under Article 270. However, sharing of Corporation tax (which is a tax on income of companies), and any Union surcharge on income tax, corporation tax or any other tax, were specifically prohibited. Further, divisible pool of income tax proceeds did not include the proceeds of income tax attributable to UTs and taxes payable in respect of Union Emoluments. In addition, the states complained that the Centre had been making an excessive use of cesses and surcharges. Exclusion of corporation tax from the divisible pool also deprived
them from a buoyant source of revenue and the provisions of the Finance Act of 1959 had further reduced the divisible pool.

In view of these facts, the states had been able to convince successive FCs to increase their collective share in the divisible pool of income tax. However, they continued pressing for different criteria for determining their individual shares; each state advocating those criteria which suited it most. The criteria advocated most forcefully were those of ‘assessment’, ‘collection’, ‘origin’ and ‘need’. None of these could be termed an ‘ideal’ criterion and each suffered from the problems of theoretical soundness, objectivity, data availability, and methodology of quantification. In some cases, such as in the case of ‘need’, some proxy variables had to be used and this process was inherently subjective and arbitrary. For example, it can be argued that a state’s share should be in proportion to the collection of tax receipts, more so because the revenue needs of a state can be accommodated through grants. Also the assessment of comparative needs of states remains equally difficult in both cases. Some proxy variables have to be used for its quantification. Population size has been a favourite proxy variable with most FCs, though area, administrative standards, poverty and several other variables are also strong candidates.

Most FCs used a combination of collection and need (as determined on the basis of some criteria like the population size, backwardness, and fiscal need etc.) for determining shares of individual states.

Check Your Progress
1. Under which article Finance Commission was to be formed?
2. When was the first Finance Commission constituted?
3. Enumerate the merits of Finance Commission.
4. Explain FC’s jurisdiction on tax-sharing
5. Enumerate Finance Commission’s discretion in Grants from Centre to States.
6. Explain the Finance Commission’s power to recommend Special-purpose Grants.

13.3 RECENT FINANCE COMMISSION

The Finance Commission is a Constitutional body formulated under Article 280 of the Indian Constitution. It is constituted every five years by the President of India to review the state of finances of the Union and the States and suggest measures for maintaining a stable and sustainable fiscal environment. It also makes recommendations regarding the devolution of taxes between the Center and the
The Fourteenth Finance Commission (FFC) was appointed on 2nd January, 2013 under the chairmanship of Dr. Y. V. Reddy. In addition to the primary objectives mentioned above, the terms of reference for the commission sought suggestions regarding the principles which would govern the quantum and distribution of grants-in-aid (non-plan grants to states), the measures, if needed, to augment State government finances to supplement the resources of local government and to review the state of the finances, deficit and debt conditions at different levels of government.

13.3.1 Major Recommendations of FFC

The FFC has submitted its recommendations for the period 2015-16 to 2020-21. They are likely to have major implications for center-state relations, for budgeting by, and the fiscal situation of, the center and the states. Some of the major recommendations are as follows;

- The FFC has radically enhanced the share of the states in the central divisible pool from the current 32 percent to 42 per cent which is the biggest ever increase in vertical tax devolution. The last two Finance Commissions viz. Twelfth (period 2005-10) and Thirteenth (period 2010-15) had recommended a state share of 30.5 per cent (increase of 1 percent) and 32 per cent (increase of 1.5 percent), respectively in the central divisible pool.

- The FFC has also proposed a new horizontal formula for the distribution of the states’ share in divisible pool among the states. There are changes both in the variables included/excluded as well as the weights assigned to them. Relative to the Thirteenth Finance Commission, the FFC has incorporated two new variables: 2011 population and forest cover; and excluded the fiscal discipline variable.

- Several other types of transfers have been proposed including grants to rural and urban local bodies, a performance grant along with grants for disaster relief and revenue deficit. These transfers total to approximately 5.3 lakh crore for the period 2015-20.

- The FFC has not made any recommendation concerning sector specific grants unlike the Thirteenth Finance Commission.

Check Your Progress

7. When was the Fourteenth Finance Commission (FFC) constituted?
8. List some of the major recommendations of the FFC.
13.4 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. The Finance Commission (FC) is a salient feature of the Indian fiscal federalism. It is a ‘tenure’ body, that is, it is constituted for a specific period of time and with specified terms of reference (that is, the issues it is to study and make recommendations pertaining to them for a specified period). Under Article 280, a Finance Commission was to be appointed within two years of the commencement of the Constitution, and thereafter, every fifth year or earlier.

4. Tax sharing between the Centre and states underwent a fundamental transformation with the Constitutional (80th Amendment) in 2000 and 88th Amendment of 2003 enacted in 2004. The latter Amendment relates to levying of service tax by the Centre and its collection and appropriation by both the Centre and the states according to legislation enacted for this purpose by the Parliament.

5. The FC, if asked by the President, estimates the revenue needs of states and recommends grants in aid of their revenues (that is, for meeting their revenue deficiency). It also lays down the principles which should govern these grants from the Centre to the states. Therefore, all states need not receive these grants and different states may receive different amounts. It, however, does not recommend grants under provisos to Article 275(1).

6. The FC can also recommend special-purpose grants to one or more states. The same may also be included in its terms of reference. States may receive these grants for helping the local bodies, for relief against natural calamities, for upgradation of administration or for other specified purposes, etc.

7. The Fourteenth Finance Commission (FFC) was appointed on 2nd January, 2013 under the chairmanship of Dr. Y. V. Reddy.

8. Some of the major recommendations of FFC are as follows:
   - The FFC has radically enhanced the share of the states in the central divisible pool from the current 32 percent to 42 per cent which is the biggest ever increase in vertical tax devolution.
   - The FFC has also proposed a new horizontal formula for the distribution of the states’ share in divisible pool among the states. There are changes both in the variables included/excluded as well as the weights assigned to them. Relative to the Thirteenth Finance Commission, the FFC has incorporated two new variables: 2011 population and forest cover, and excluded the fiscal discipline variable.
Several other types of transfers have been proposed including grants to rural and urban local bodies, a performance grant along with grants for disaster relief and revenue deficit. These transfers total to approximately 5.3 lakh crore for the period 2015-20.

The FFC has not made any recommendation concerning sector specific-grants unlike the Thirteenth Finance Commission.

13.5 SUMMARY

- Under Article 280, a Finance Commission was to be appointed within two years of the commencement of the Constitution, and thereafter, every fifth year or earlier. Its working is further governed by the Finance Commission (Miscellaneous Provisions) Act, 1951. It is an advisory body and deals with the transfer of resources from the Centre to the states.

- The institution of FC provides a much needed flexibility in the interest of optimum distribution of national resources between different tiers of governments in accordance with their respective needs.

- Till date, fourteen Finance Commissions have been appointed and have submitted their reports. The recommendations of the FC-XIII cover a five-year period from April 1, 2010 to March 31, 2015.

- Sharing of Union excise duties was not obligatory for the Centre. The President had the discretion to refer the question of their sharing with the states to the Commission. In effect, this matter was always included in its ToR. Here again the Commission recommended the sharing of net proceeds of these duties (excepting earmarked cesses) between the Centre and state, and the distribution of their collective share between individual states.

- The FC, if asked by the President, estimates the revenue needs of states and recommends grants in aid of their revenues (that is, for meeting their revenue deficiency). It also lays down the principles which should govern these grants from the Centre to the states. Therefore, all states need not receive these grants and different states may receive different amounts. It, however, does not recommend grants under provisos to Article 275(1).

- The FC may be asked by the President to study specific problems and issues in the interest of sound finance of states and/or the Centre and make recommendations. Examples include the question of indebtedness of states to the Centre, the debt relief needed by states, financing of relief expenditure, financing of schemes for the upgradation of administrative services, maintenance of non-plan schemes and other capital assets, measures for improving the fiscal health of the Centre and the states, and so on.
The Commission may be put under specified restrictions in formulating its recommendations. For example, beginning with the FC-VII, every FC was required to use the population figures of 1971 in all cases where it used population as a factor in determination of devolution of the taxes, duties and grants in aid.

The FC should follow a set of some objective criteria in making its recommendations regarding resource transfers from the Centre to the states and the shares of individual states in the transferred resources.

Most FCs used a combination of collection and need (as determined on the basis of some criteria like the population size, backwardness, and fiscal need etc.) for determining shares of individual states.

The Fourteenth Finance Commission (FFC) was appointed on 2nd January, 2013 under the chairmanship of Dr. Y. V. Reddy.

The FFC has submitted its recommendations for the period 2015-16 to 2020-21. They are likely to have major implications for center-state relations, for budgeting by, and the fiscal situation of, the center and the states.

13.6 KEY WORDS

- **Estate duty**: It is a tax on the total market value of a person’s assets (cash and non-cash) at the date of his or her death. It does not matter if the person has a will or not, the assets are still subject to estate duty.

- **A grant-in-aid**: It is an aid/money coming from central government for a specific project. This kind of funding is usually used when the government and parliament have decided that the recipient should be publicly funded but operate with reasonable independence from the state.

- **Normative approach**: An approach to sociological studies that has the aim of establishing the values and norms that best fit the overall needs and expectations of society.

13.7 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions

2. Explain the Significance of the Finance Commission.
3. Enumerate the Finance Commission’s discretionary power of recommendations.
4. Write a brief note on demerits of the Finance Commission.
5. Analyse FC’s authority with reference to the taxes under article 269.

**Long-Answer Questions**

1. Discuss the fiscal situation that led to the formation of a Finance Commission in India.
2. Analyse the Finance Commissions’ jurisdiction in resource transfer.
3. Write a comprehensive note on Finance Commission’s position before the Amendments.
4. Enumerate Finance Commission’s position after the Amendments.
5. Analyse the constraints the Finance Commission may be facing while formulating its recommendations.

**13.8 FURTHER READINGS**


UNIT 14 MACRO POLICY: AN OVERVIEW

Structure
14.0 Introduction
14.1 Objectives
14.2 National Agricultural Policy
14.3 GATT
14.3.1 Trade Negotiations Under GATT
14.3.2 Non-Tariff Measures
14.4 WTO and India’s Foreign Trade
14.4.1 Structure of WTO
14.4.2 Scope of the WTO
14.4.3 Basic Principles of General Agreement on Tariffs and Trade (GATT)/World Trade Organization (WTO)
14.4.4 WTO Agreements and their Business Impact
14.4.5 Intellectual Property Rights
14.4.6 WTO and Dispute Settlement
14.4.7 The Process: Stages in WTO Dispute Settlement Procedure
14.4.8 Anti-Dumping Provisions
14.4.9 Statistics of Anti-Dumping
14.5 Answers to Check Your Progress Questions
14.6 Summary
14.7 Key Words
14.8 Self Assessment Questions and Exercises
14.9 Further Readings

14.0 INTRODUCTION

The General Agreement on Tariffs and Trade (GATT) was launched in Geneva in 1948 to reshape the world economy shattered by the Second World War. It comprised a trade pact among the member countries (more than a hundred, latter) with the objective of forming a permanent organisation, which would enforce a set of rules for the conduct of world trade. GATT’s birth is a historical accident because United States refused to submit the Havana Charter to Congress for ratification. There was a virtual head on multilateralism on the one hand, and those who placed the whole emphasis on full employment policies on a national basis on the other. Such position made the ITO finally collapse.

As far as the agriculture sector is concerned, until 1994, it was outside the GATT purview. The original GATT applied to trade in agriculture also, but it allowed various exceptions to the rules on non-tariff measures and subsidies, which led to reverse distortions in world agriculture trade. The Uruguay Round of GATT
negotiations went well beyond the international trade. It included the fields of GATT and extended to areas which were essentially part of domestic policies of a nation. New issues such as Intellectual Property Rights (IPRs), agriculture, investment, services, etc were brought on the agenda of multilateral negotiations.

The eighth round of GATT's failure resulted in World Trade Organisation (WTO) that was a culmination of international efforts to establish truly international trade organisation. WTO works under certain guiding principles which govern all negotiating aspects namely agriculture, textiles and clothing, banking, telecommunications, government purchases, industrial standards and product safety, food sanitation regulations, intellectual property, etc. WTO’s dispute settlement procedure is very significant for resolving trade quarrels. Whenever there is a violation by any government on WTO agreement or a commitment made to WTO, dispute settlement procedure comes to the rescue.

This unit gives an in-depth view of National Agriculture Policy, GATT and the beginning of an era of multilateralism through the formation of the WTO.

14.1 OBJECTIVES

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

- Understand the formation of National Agriculture Policy
- Explain the aims of National Agricultural Policy
- Get an insight into the formation of the General Agreement on Tariffs and Trade (GATT)
- Understand the trade negotiations under the GATT
- Explain WTO and foreign trade
- Analyse the principles of GATT/WTO
- Enumerate WTO's dispute settlement mechanism
- Understand Intellectual Property Rights (IPRs)

14.2 NATIONAL AGRICULTURAL POLICY

As already discussed in Unit 4, the first ever National Agriculture Policy was announced on 28th July, 2000. The formulation of Agriculture Policy had been under consideration of the Government for the last few years as a comprehensive National Agriculture Policy was absolutely essential to build on the inherent strength of the agriculture and allied sectors to address the constraints and to make optimal use of resources and opportunities emerging as a result of advancement in science and technology and emerging of a new economic regime.
Macro Policy: An Overview

National Agriculture Policy seeks to actualise vast untapped growth potential of Indian Agriculture, strengthen rural infrastructure to support faster agricultural development, promote value addition, accelerate the growth of agro-business create employment in rural areas, secure a fair standard of living for the farmers and agricultural workers and their families, discourage migration to urban areas and face the challenges arising out of economic liberalization and globalization over the next two decades, it aims to attain:

- A growth rate in excess of four per cent annum in the agriculture sector;
- Growth that is based on efficient use of resources and conserves our soil, water and bio-diversity;
- Growth with equality, i.e. growth which is widespread across regions and farmers;
- Growth that is demand driven and caters to domestic markets and maximizes benefits from exports of agricultural products in the face of the challenges arising from economic liberalization and globalisation;
- Growth that is sustainable technologically, environmentally and economically.

A nine pronged strategy has been devised to meet the challenges of enhancing production and strengthening rural economies while taking care to promote technically sound, economically viable, environmentally non-degrading and socially acceptable use of country’s natural resources—land and water particular.

Check Your Progress

1. Why do you think that India needs a National Agricultural Policy?
2. List the main aims of National Agricultural Policy.

14.3 GATT

Although the challenges confronting developing countries primarily concern domestic policies and institutions, trade policies—narrowly defined—are still important in today’s international economic landscape.

The General Agreement on Tariffs and Trade (GATT) was the outcome of the failure of the negotiating governments to create an International Trade Organization (ITO) following World War II. Negotiations on the charter of such an organization were concluded successfully in Havana in 1948, but the talks did not lead to the establishment of ITO because the US Congress was expected to refuse to ratify the agreement. Meanwhile, GATT was negotiated in 1947 by
GATT was a multilateral treaty laid down on agreed rules for conducting international trade. Since 1947, GATT has been the major focal point for the governments of industrial countries seeking to lower trade barriers. Although GATT was initially largely limited to a tariff agreement, over time and as average tariff levels fell, it increasingly came to concentrate on non-tariff trade policies and domestic policies that have an impact on trade. By the end of the Uruguay Round in 1944, 128 countries had joined GATT. Its basic aim was to liberalize trade and for forty-seven years it had been concerned with negotiating the reduction of trade barriers and with international trade relations. Overseeing the application of its rules is an important and continuing part of its activities.

14.3.1 Trade Negotiations Under GATT

Eight major trade negotiations have taken place under the auspices of GATT. As a result of these negotiations, the tariff rates for thousands of items entering into the world commerce were reduced, or bound against increase. The Kennedy Round negotiations alone reduced the average level of the world industrial tariffs by about one-third. The Tokyo Round negotiations produced some comprehensive agreements on tariff and non-tariff measures.

14.3.2 Non-Tariff Measures

As the general level of tariffs declined in the post-World War II period, the distorting effects on world trade of non-tariff barriers became more pervasive. The Tokyo Round was different from earlier trade negotiations in as much as it sought to tackle the problem of these non-tariff barriers. The core of the Tokyo Round results consists of the binding agreements, or codes aimed at reducing and bringing these non-tariff measures under more effective international discipline.

Given its provisional nature and limited field of action, the success of GATT in promoting and securing the liberalization of world trade in over forty-seven years is incontestable. Continual reductions in industrial tariffs from an average of 40 per cent to less than 4 per cent alone helped achieve high growth rates in world trade—around 8 per cent a year on an average—during the 1950s and 1960s.

The rush of new members during the Uruguay Round demonstrated that the multilateral trading system, as then represented by GATT, was recognized as an anchor for development and an instrument of economic and trade reform.

A whole corpus of jurisprudence on trade matters evolved under the aegis of GATT. The WTO is, in large measure, built upon the strong foundation provided by GATT.
Check Your Progress
3. Explain the setting up of the General Agreement on Tariffs and Trade (GATT).
4. Enumerate the trade negotiations under the auspices of GATT.

14.4 WTO AND INDIA’S FOREIGN TRADE

WTO agreements covering the multilateral trading system are an example of a very typical economic system which can be called supranational. It is not representing any free trade area or the common market or the economic union. However, there is an increasing trend of adopting the qualities of each of these economic systems. Multilateral trading system impacted the national policy autonomy in a very limited manner prior to the conduct of the Uruguay Round. There have been different agreements on subsidies, investment, services and intellectual property which are very much within the border through the evolution of Uruguay Round. There is a deviation in the context of this agreement in common markets and economic unions to a certain extent.

14.4.1 Structure of WTO

WTO is responsible for overseeing the functioning of agreements within goods. Services and intellectual property rights related issues are delegated to three other bodies in terms of General Council, as per the highest authority of Ministerial conference. The other entities functioning under WTO are:

- Committee on Trade and Development
- Committee on Balance of Payment (BOP) restriction
- Committee to oversee the functioning of budget finance and administration
- Committee on Regional Trade Agreement 1996
- Bodies set under limited membership plurilateral Trade Agreement
- Committee on market access
- Working party on accession
- Working groups on relationship between
  i. Trade and investment
  ii. Trade and competition policy
- Transparent government procurement agencies
14.4.2 Scope of the WTO
The WTO agreement (sometimes described as a ‘mini charter’) is strictly institutional and procedural in character and has no substantive rules or principles other than those which are included in the annexed agreements.

14.4.3 Basic Principles of General Agreement on Tariffs and Trade (GATT)/World Trade Organization (WTO)
- Market access: Reduction and binding of tariffs
- A country commits itself to ensure an agreed level of access to its market, on an MFN (Most Favored Nations) basis which means that a country is applying a common basic tariff (customs duty) to WTO member states: General elimination of quantitative restrictions on imports and exports
- The use of QRs (Quantitative Restrictions) is prohibited
- Prohibition of QRs GATT Article XI
- Non-discrimination of QRs and TRQs GATT Article XIII
- Prohibition of QRs GATS Article XVI

14.4.4 WTO Agreements and their Business Impact
Following is a list of WTO Agreements and their broad coverage/impact on the conduct of business:

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>WTO Agreements</th>
<th>Business impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>I. General Agreement on Tariff &amp; Trade (GATT)</td>
<td>Reduction in import duty and other barriers to trade</td>
</tr>
<tr>
<td></td>
<td>II. Agreement on Agriculture</td>
<td></td>
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<tr>
<td>2.</td>
<td>General Agreement on Trade in Services (GATS)</td>
<td>Liberalizing Services trade</td>
</tr>
<tr>
<td>3.</td>
<td>I. Agreement on Valuation of Goods</td>
<td>Establishing rules for liberal, secure and predictable access to foreign markets</td>
</tr>
<tr>
<td></td>
<td>II. Agreement on Pre-shipment Inspection (PSI)</td>
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</tr>
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<td></td>
<td>III. Agreement on Import Licensing Procedures</td>
<td></td>
</tr>
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<td></td>
<td>IV. Agreement on Technical Barriers to Trade (TBT)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>V. Agreement on Rules of Origin</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>I. Rules applicable on Exports</td>
<td>Subsidies and rights of exporters</td>
</tr>
<tr>
<td></td>
<td>II. Agreement on Subsidies and Countervailing Measures (ASCM)</td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>I. Agreement on Safeguard Measures</td>
<td>Rules to check surge in imports</td>
</tr>
<tr>
<td></td>
<td>II. Agreement on Anti-Dumping Measures (ADM)</td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Trade Related Intellectual Property Rights (TRIPs)</td>
<td>Protection of Intellectual property rights</td>
</tr>
<tr>
<td>7.</td>
<td>I. Trade Related Investment Measures (TRIMS)</td>
<td>Other areas</td>
</tr>
<tr>
<td></td>
<td>II. Agreement on Govt. Procurement (GP)</td>
<td></td>
</tr>
</tbody>
</table>
14.4.5 Intellectual Property Rights

The Uruguay Round negotiated the agreement on trade related aspects of intellectual property rights.

This agreement recognizes the fact that intellectual property rights are private rights and establishes minimum standards of protection which need to be adopted by all the governments of the member countries of WTO. It needs to be noted that member countries can very easily provide the highest standards of intellectual property rights protection. The bases of this agreement are Paris, Berne, Rome and Washington conventions in their respective fields in terms of agreements and supplements.

This is not a fully independent convention but it is a rigorous set of articles which puts together the convention plus protection for IPRs. This agreement has one of the most comprehensive coverages and it also fulfills the requirements of convention plus protection for IPRs.

TRIPS agreement covers many issues with international instruments on IPRs. It deals with different types of IPRs with the exception of breeders' rights.

Intellectual property reflects mainly ideas for novel and innovative brand products and book designs which indicate productiveness of human expressions. If due protection is not given, there is a possibility of its loss to competitors leaving the original inventor without any advantage for himself and thus providing a disincentive for carrying out the innovations in future.

Intellectual property, like any form of property, is protected through a law and can be a subject of trade, it can be owned and there can be a buy and sale as well. It is distinguished from other forms through some features including their intangibility and non-exhaustion by consumption.

14.4.6 WTO and Dispute Settlement

WTO’s dispute settlement procedure is very significant for resolving trade quarrels. Whenever there is a violation by any government on WTO agreement or a commitment made to WTO—WTO’s dispute settlement procedure comes to the rescue. In fact, these agreements have been made by the representatives of governments of various countries. Obviously, these representatives bear the brunt of settling disputes through the Dispute Settlement Body (DSB).

14.4.7 The Process: Stages in WTO Dispute Settlement Procedure

The dispute settlement system consists of various stages. Two major ways in which the dispute can be settled after the filing of the complaint are:

(i) The parties find a mutually agreed solution, particularly during the phase of bilateral consultations; and

(ii) Through adjudication
There are three main stages to the WTO dispute settlement process:

(i) Consultations between the parties

(ii) Adjudication by panels and, if applicable, by the appellate body;

(iii) The implementation of the ruling, which includes the possibility of counter measures in the event of failure by the losing party to implement the ruling.

Fig. 14.1 Flow Chart of the Dispute Settlement Process

Source: http://www.wto.org
14.4.8 Anti-Dumping Provisions

If a company exports a product at a price lower than the price it normally charges on its own home market, it is said to be ‘dumping’ the product. The WTO anti-dumping provisions do not pass judgment but discipline the anti-dumping actions taken by governments.

14.4.9 Statistics of Anti-Dumping

There was a fall in the number of disputes in 2009 because of the global economic crises. There were 209 initiations which came down to 170 in the first half of 2010 and 68 in the first half of 2011.

India uses dispute settlement system in the area of anti-dumping to a great extent. There was exception for the year 2004 when EU followed by China and US topped the list. Going along with the pace of global development there was an increase in the anti-dumping initiation to 55 in 2008. Then there was a fall to 31 in 2009. Soon there was an increase to 41 in 2010. Brazil was number two in 2010 with 37 initiatives (Table 14.2).

Table 14.2 Investigations initiated by top ten users of Anti-Dumping Measures 1995-2011

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>6</td>
<td>79</td>
<td>81</td>
<td>46</td>
<td>21</td>
<td>28</td>
<td>35</td>
<td>47</td>
<td>55</td>
<td>31</td>
<td>41</td>
<td>10</td>
<td>647</td>
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<tr>
<td>United States</td>
<td>14</td>
<td>77</td>
<td>35</td>
<td>37</td>
<td>26</td>
<td>12</td>
<td>8</td>
<td>28</td>
<td>16</td>
<td>20</td>
<td>3</td>
<td>9</td>
<td>452</td>
</tr>
<tr>
<td>EU</td>
<td>33</td>
<td>28</td>
<td>20</td>
<td>7</td>
<td>30</td>
<td>24</td>
<td>35</td>
<td>9</td>
<td>19</td>
<td>15</td>
<td>15</td>
<td>8</td>
<td>428</td>
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<tr>
<td>Argentina</td>
<td>27</td>
<td>28</td>
<td>14</td>
<td>1</td>
<td>12</td>
<td>12</td>
<td>11</td>
<td>8</td>
<td>19</td>
<td>28</td>
<td>14</td>
<td>4</td>
<td>288</td>
</tr>
<tr>
<td>Brazil</td>
<td>5</td>
<td>17</td>
<td>8</td>
<td>4</td>
<td>8</td>
<td>6</td>
<td>12</td>
<td>13</td>
<td>9</td>
<td>37</td>
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<td>Australia</td>
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<td>16</td>
<td>8</td>
<td>9</td>
<td>7</td>
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<td>8</td>
<td>9</td>
<td>7</td>
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<td>219</td>
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<td>South Africa</td>
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<td>6</td>
<td>4</td>
<td>8</td>
<td>6</td>
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<td>14</td>
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<td>0</td>
<td>196</td>
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<tr>
<td>Canada</td>
<td>11</td>
<td>25</td>
<td>5</td>
<td>15</td>
<td>11</td>
<td>1</td>
<td>7</td>
<td>1</td>
<td>3</td>
<td>6</td>
<td>2</td>
<td>0</td>
<td>153</td>
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<tr>
<td>Turkey</td>
<td>0</td>
<td>15</td>
<td>18</td>
<td>11</td>
<td>25</td>
<td>12</td>
<td>8</td>
<td>6</td>
<td>23</td>
<td>6</td>
<td>2</td>
<td>1</td>
<td>147</td>
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<tr>
<td>All countries</td>
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<td>372</td>
<td>315</td>
<td>234</td>
<td>220</td>
<td>201</td>
<td>204</td>
<td>165</td>
<td>213</td>
<td>209</td>
<td>170</td>
<td>68</td>
<td>3922</td>
</tr>
</tbody>
</table>

Source: Economic Survey 2011-12

India has the highest anti-dumping initiation cases in the international context. Share of imports from the target countries before the imposition of duties i.e. 2009-10 for 12 items for which this duty was imposed by India was only 0.6 per cent in April-March 2010-11. In 2010-11 it came down to 0.4 per cent.
Table 14.3 Anti-Dumping Duty by India in 2010-11 (April-March)

<table>
<thead>
<tr>
<th>No. of items</th>
<th>No. of cases</th>
<th>No. of countries involved</th>
<th>Value of imports of the items from target countries (US$ million)</th>
<th>Value of imports of the items from all countries (US$ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>2009-10</td>
<td>2010-11</td>
</tr>
<tr>
<td>12</td>
<td>19</td>
<td>10</td>
<td>1767</td>
<td>1304</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(0.6)</td>
<td>(0.4)</td>
</tr>
</tbody>
</table>

Source: Economic Survey 2011-12

Note: Percentage share in total imports of India in brackets

Check Your Progress
5. List some of entities functioning under WTO.
7. List WTO’s dispute settlement procedure.
8. Enumerate WTO’s anti-dumping.

14.5 ANSWERS TO CHECK YOUR PROGRESS QUESTIONS

1. The formulation of Agriculture Policy had been under consideration of the Government for the last few years as a comprehensive National Agriculture Policy was absolutely essential to build on the inherent strength of the agriculture and allied sectors to address the constraints and to make optimal use of resources and opportunities emerging as a result of advancement in science and technology and emerging of a new economic regime.

2. National Agricultural Policy aims to attain:
   • A growth rate in excess of four per cent annum in the agriculture sector;
   • Growth that is based on efficient use of resources and conserves our soil, water and bio-diversity;
   • Growth with equality, i.e. growth which is widespread across regions and farmers;
   • Growth that is demand driven and caters to domestic markets and maximizes benefits from exports of agricultural products in the face of the challenges arising from economic liberalization and globalization
   • Growth that is sustainable technologically, environmentally and economically.
3. GATT was a multilateral treaty laid down on agreed rules for conducting international trade. Since 1947, GATT has been the major focal point for the governments of industrial countries seeking to lower trade barriers. Although GATT was initially largely limited to a tariff agreement, over time and as average tariff levels fell, it increasingly came to concentrate on non-tariff trade policies and domestic policies that have an impact on trade. By the end of the Uruguay Round in 1994, 128 countries had joined GATT.

4. Eight major trade negotiations have taken place under the auspices of GATT. As a result of these negotiations, the tariff rates for thousands of items entering into the world commerce were reduced, or bound against increase.

5. Entities functioning under WTO are:
   - Committee on Trade and Development
   - Committee on Balance of Payment (BOP) restriction
   - Committee to oversee the functioning of budget finance and administration
   - Committee on Regional Trade Agreement 1996
   - Bodies set under limited membership Plurilateral Trade Agreement
   - Committee on market access
   - Working party on accession
   - Working groups on relationship between
     i. Trade and investment
     ii. Trade and competition policy
   - Transparent government procurement agencies

6. Intellectual property reflects mainly ideas for novel and innovative brand products and book designs which indicate productiveness of human expressions. If due protection is not given, there is a possibility of its loss to competitors leaving the original inventor without any advantage for himself and thus providing a disincentive for carrying out the innovations in future.

7. The dispute settlement system consists of various stages. Two major ways in which the dispute can be settled after the filing of the complaint are:
   (i) The parties find a mutually agreed solution, particularly during the phase of bilateral consultations; and
   (ii) Through adjudication

   There are three main stages to the WTO dispute settlement process:
   (i) Consultations between the parties
(ii) Adjudication by panels and, if applicable, by the appellate body;
(iii) The implementation of the ruling, which includes the possibility of counter measures in the event of failure by the losing party to implement the ruling.

8. If a company exports a product at a price lower than the price it normally charges on its own home market, it is said to be ‘dumping’ the product. The WTO anti-dumping provisions do not pass judgment but discipline the anti-dumping actions taken by governments.

14.6 SUMMARY

- The first ever National Agriculture Policy was announced on 28th July, 2000. The formulation of Agriculture Policy had been under consideration of the Government for the last few years.

- A nine-pronged strategy has been devised to meet the challenges of enhancing production and strengthening rural economies while taking care to promote technically sound, economically viable, environmentally non-degrading and socially acceptable use of country’s natural resources-land and water particular.

- GATT was a multilateral treaty laid down on agreed rules for conducting international trade. Since 1947, GATT has been the major focal point for the governments of industrial countries seeking to lower trade barriers. Although GATT was initially largely limited to a tariff agreement, over time and as average tariff levels fell, it increasingly came to concentrate on non-tariff trade policies and domestic policies that have an impact on trade.

- Given its provisional nature and limited field of action, the success of GATT in promoting and securing the liberalization of world trade in over forty-seven years is incontestable. Continual reductions in industrial tariffs from an average of 40 per cent to less than 4 per cent alone helped achieve high growth rates in world trade—around 8 per cent a year on an average—during the 1950s and 1960s.

- WTO agreements covering the multilateral trading system are an example of a very typical economic system which can be called supranational. It is not representing any free trade area or the common market or the economic union. However, there is an increasing trend of adopting the qualities of each of these economic systems.

- WTO is responsible for overseeing the functioning of agreements within goods. Services and intellectual property rights related issues are delegated to three other bodies in terms of General Council, as per the highest authority of Ministerial conference.
The WTO agreement (sometimes described as a ‘mini charter’) is strictly institutional and procedural in character and has no substantive rules or principles other than those which are included in the annexed agreements.

TRIPS agreement covers many issues with international instruments on IPRs. It deals with different types of IPRs with the exception of breeders’ rights.

WTO’s dispute settlement procedure is very significant for resolving trade quarrels. Whenever there is a violation by any government on WTO agreement or a commitment made to WTO—WTO’s dispute settlement procedure comes to the rescue.

If a company exports a product at a price lower than the price it normally charges on its own home market, it is said to be ‘dumping’ the product. The WTO anti-dumping provisions do not pass judgment but discipline the anti-dumping actions taken by governments.

India has the highest anti-dumping initiation cases in the international context. Share of imports from the target countries before the imposition of duties i.e. 2009-10 for 12 items for which this duty was imposed by India was only 0.6 per cent in April-March 2010-11. In 2010-11 it came down to 0.4 per cent.

14.7 KEY WORDS

- **The International Trade Organization (ITO):** ITO was the proposed name for an international institution for the regulation of trade. Led by the United States in collaboration with allies, it eventually failed due to lack of approval by the US Congress.

- **Most Favored Nation (MFN) status:** This is an economic position in which a country enjoys the best trade terms given by its trading partner. It receives the lowest tariffs, the fewest trade barriers, and the highest import quotas.

- **QRs (Quantitative Restrictions):** Specific limits on the quantity or value of goods that can be imported (or exported) during a specific time period.

- **TRIPS agreement:** The Agreement on Trade related Aspects of Intellectual Property Rights of the WTO is commonly known as the TRIPS Agreement.

- **An anti-dumping duty:** This is a protectionist tariff that a domestic government imposes on foreign imports that it believes are priced below fair market value.
14.8 SELF ASSESSMENT QUESTIONS AND EXERCISES

Short-Answer Questions
1. Write a short note on the significance of National Agriculture Policy.
2. How did GATT come to existence? Explain
3. Enumerate in brief the various negotiations under the aegis of GATT.
4. Write note on the scope of the WTO.
5. Analyse WTO agreements and their business impact.
6. Enumerate the various stages of WTO’s dispute settlement.

Long-Answer Questions
1. Discuss the role of National Agriculture policy in actualizing the untapped potential of agriculture.
2. Analyse the basic aim of the General Agreement on Tariffs and Trade (GATT).
3. Write a comprehensive note non-tariff measures on the world trade.
4. Enumerate the basic principles of GATT/WTO.
5. Analyse the provisions of anti-dumping measures.

14.9 FURTHER READINGS