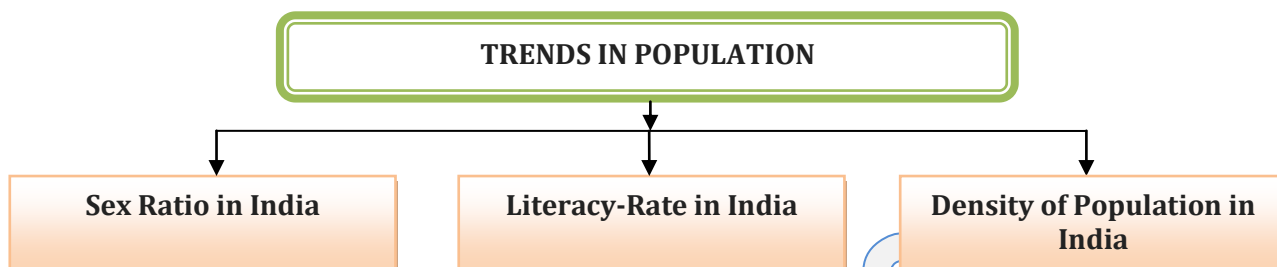


**UNIT-I**  
**Introduction to Indian Economy**



**The main characteristics of population in India may be discussed as below –**

- (i) **Sex Ratio in India**—Sex-ratio in India has increased marginally from 927 females per 1,000 males in 1991 to 933 females per 1,000 males in 2001. The adverse sex-ratio in India is probably due to female foeticide, following sex-determination tests. This may have contributed to some extent to this situation. Sex-ratio has been favourable in Kerala (1058) and Pondicherry (1001) in 2001. It has been the highest in Kerala (1058) and the lowest in the Union Territory of Damon & Diu (709). In Chhattisgarh it was (990), Orissa (972), Tamilnadu (986), West Bengal (934), Raj. (922), M.P. (920) and U.P. (898). During 1991-2001s there has been a trend towards a slight rise in the sex-ratio in most of the states and UT's in India and also in the country as a whole.
- (ii) **Literacy-Rate in India**— The calculation of literacy-rate has been modified in the 1991 census. It has been worked out for population aged seven years and above. It has been assumed that children are not expected to begin their schooling below the age of seven. In China the cut-off points are 12 years and above, for estimating the ratio of illiterates and semi-literates. The literacy-rate on the basis of modified basis has gone up from 52.21% in 1991 to 65.38% in 2001. In 2001, the highest literacy-rate was 90.92% for Kerala, while the lowest literacy-rate was 47.53% for Bihar.

**For some states the literacy-rates in 2001 were as follows :**

|     |                |        |
|-----|----------------|--------|
| (1) | Andhra Pradesh | 61.11% |
| (2) | Maharashtra    | 77.27% |
| (3) | Rajasthan      | 61.03% |
| (4) | Tamilnadu      | 73.47% |
| (5) | West Bengal    | 69.22% |

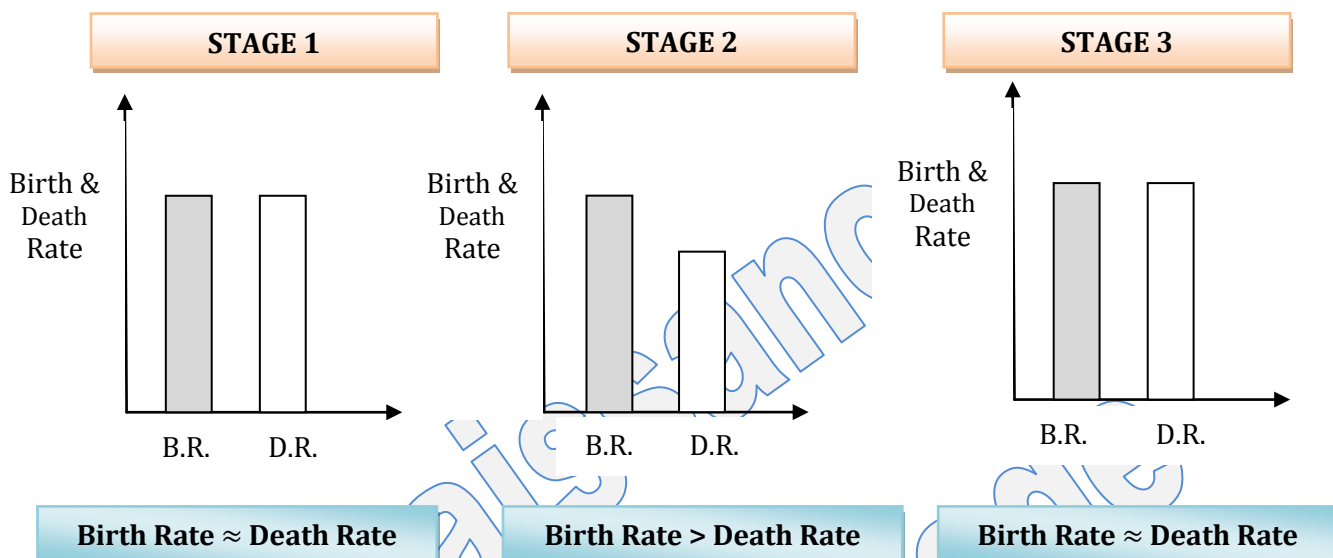
In 2001, the literacy-rate was 75.85% for males and 54.16% for females in India. Hence female literacy-rate is trailing far behind the male literacy-rate, which should be improved upon in Mae. The highest literacy rate for females in India in 2001 was also in Kerala (87.86%) and lowest was also in Bihar (33.57%).

- (iii) **Density of Population in India**—The density of population has increased from 267 per sq. km. in 1991 to 324 in 2001 in India. In 2001, the highest density in the states was 904 in West Bengal, while the lowest density was 13 in Arunachal Pradesh.

Although the decadal growth rate of population in India has gone down marginally from 23.86% in 1981-91 to 21.34% in 1991-2001, yet the addition of 'One Australia' every year in the total population of India is bewildering and rather a terrible situation. This is a cause for worry and there is need to bring down the birth-rate from 24.8 per thousand during 2003 to a much lower level in the current decade.

### THEORY OF DEMOGRAPHIC TRANSITION

The theory of demographic transition is the latest and the widely acclaimed theory among economists. The demographic transition theory postulates three distinct stages in population growth and economic development.



#### First Stage of Demographic Transition

The stage of high birth and death rates and a consequent stable population level.

- 1) In the first stage of demographic transition, the economy is an agrarian one. People mostly live in rural areas and their only basic source of livelihood is agriculture, which is also backward. There are a few consumer goods industries. Furthermore, the tertiary sectors like banking, transport and commerce are under-developed at the first stage of demographic transition.
- 2) Birth and death rates are very high. The death rate is very high because of poor diet, primitive sanitation and the absence of effective medical facilities. On the other hand, the birth is high due to early marriages, illiteracy, absence of knowledge about family planning, deep-rooted social beliefs and customs about the size of the family, attitude towards children etc. The economic reasons also impel the families to have more children. More children supplement the family income. They are considered assets rather than liabilities for the family. All these factors create a situation of “baby boom”.
- 3) Thus in the first stage of demographic transition the high birth rate is counterbalanced or neutralized by the high death rate, and so the actual growth rate of population is not high. In short, it is a stage of high growth potential but of low actual growth.
- 4) The population statistics in India indicate the year, 1921 as the “year of Great Divide”, before 1921 the birth rate and death rate were almost equal and the size of population was almost stagnant.

#### Second Stage of Demographic Transition

The stage of high birth rate and a declining death rate and a consequent high growth rate of population which may be aptly termed as ‘population explosion’.

- 1) In the second stage of demographic transition, the economy enters the doorstep of growth. Primary, secondary and tertiary sectors develop simultaneously. Regular employment enhances family income and so people get regular and sufficient quantities of food. Medical and health facilities expand. Modern life saving drugs and medicines are used. All these factors have an appreciable effect in reducing the death rate.

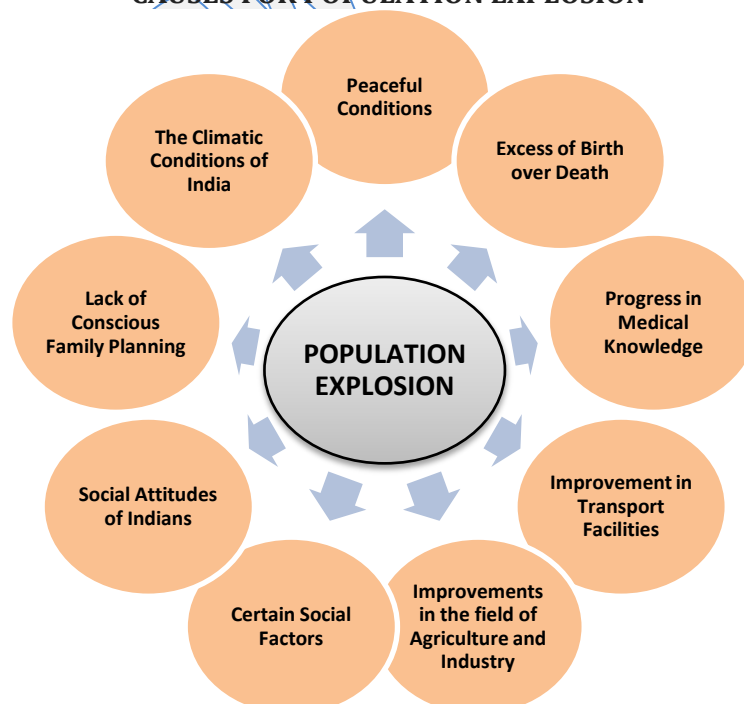
- 2) However, the birth rate continues to be high or remains almost stable. Various factors are responsible for the birth rate to be stable. Firstly, children, add more income to the family. Secondly, the life expectancy increases due to an improvement in the standard of living and the dietary habits of the people. Thirdly, the inclination towards family planning is not attractive due to religious dogmas and social taboos. All these factors are responsible for a state of “population explosion”. Therefore, the high birth and the falling death rates lead to an increase in the average size of the family.
- 3) India is now in this crucial and critical stage of demographic transition. Though the country has achieved tremendous progress in food supply and other related fields, the ever-increasing torrent of babies eats up the fruits of economic growth. The standard of living of the people has not improved considerably. Moreover, famines and droughts are frequent visitors in various parts of the country.

### Third Stage of Demographic Transition

The stage of low birth and death rates and a consequent low growth rate of population.

- 1) The continuous economic growth over a span of time enables the population to cross the subsistence level of income and consequently the standard of living improves.
- 2) During this stage of demographic transition, the character of the economy and people changes vastly. Firstly, the economy shifts its importance from agriculture to industry. Secondly, it facilitates the mobility of labor force from rural to urban centers. Thirdly, the role of women changes. The mobility of labor force can be achieved even with the small size of family. Fourthly, women and men prefer late marriage. Fifthly, education expands knowledge and so people discard old customs, dogmas and beliefs and develop individualistic attitudes. The joint family system breaks down altogether. Sixthly, people will feel the pinch of having more babies. Child-rearing becomes a costly affair. People readily adopt various family planning devices. Lastly, since the death rate is already low, the small family norm can be achieved only when birth rate falls.
- 3) Most developed countries are passing through this stage of demographic transition. Thus, the birth and death rates are balance to each other at a lower level. Population in these countries grows only at a slow and normal rate.

### CAUSES FOR POPULATION EXPLOSION



### CAUSES FOR POPULATION EXPLOSION /RAPID GROWTH OF POPULATION IN INDIA

Various factors have contributed to the rapid growth of population in India among which the following can be noted:

**(i) Peaceful Conditions:**

For nearly a century [1860-1960] India enjoyed comparative peace without involving herself in major inter-conflicts or wars especially after the establishment of British rule. Peaceful conditions provided an impetus for over-population.

**(ii) Excess of Birth over Death:**

Growth of population depends on the excess of births over deaths. Death rate has been declining rapidly in India. It was 42.6 per 1000 in 1911 and it decreased to 8.7 per 1000 in 2001. The birth rate is still high in India. It was 49.2 per 1000 in 1911 and it decreased to only 26.1 per 1000 in 2001.

The gap between birth rate and death rate has widened leading to an increase in the population. [The average annual rate of increase of population in India is 1.76% at present [2011] whereas it is only 1.2% in U.S.A., 0.4% in U.K., 1.1% in China, 0.4% in France and 0.3% in Japan.]

(iii) **Progress in Medical Knowledge** and its application has considerably reduced the death rate. It has helped us to control the spread of diseases like Malaria, T.B., Cholera, Plague, Influenza, Smallpox, etc., and protected the lives of people from the jaws of death. Positively, it has contributed to greater population, because, those persons saved from the death also produced children to add to the existing numbers.

(iv) **Improvement in Transport Facilities** has helped people to avail of medical and health facilities without much difficulty. These have saved countless lives and added to the size of the population.

(v) **Improvements in the field of Agriculture and Industry** also contributed to an increase in population. Uncertainties in the field of agriculture have largely been removed with the help of science and technology. Food production has considerably increased. Industries have been providing employment opportunities to thousands of persons. These developments have given people the confidence that they can afford to feed more people if they beget.

(vi) **Certain Social Factors** like Universal Marriage, Child Marriage, Early Marriage have also contributed to the problem. Indians consider marriage as a social obligation and almost all marriageable persons are in a married state. Life-long bachelorship is looked down upon. Particularly for women marriage is almost an inescapable obligation. Further, the number of children born per couple is also large.

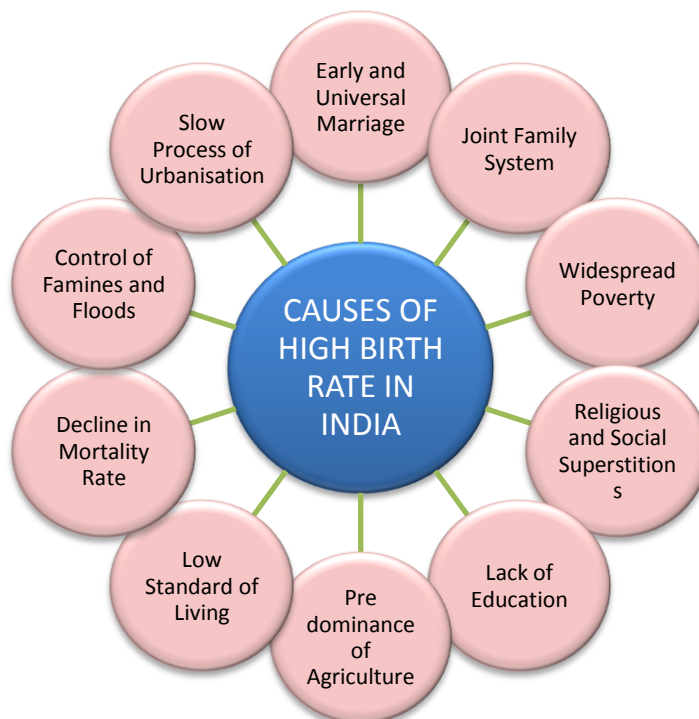
(vii) **Social Attitudes of Indians** also favour an increase in population. Poverty, illiteracy, ignorance, absence of recreational facilities, attitudes of conservatism, orthodoxy, feeling of dependence on God, a sense of resignation towards life, looking upon children as old age pension, etc., are all responsible for the rapid growth of population.

**(viii) Lack of Conscious Family Planning:**

There is the lack of conscious family planning on the part of the married people. The use of contraceptives is unknown to the illiterate masses. People feel that more children are wanted for economic purposes. Further, blind faith in fate and the existence of joint family system induce thoughtlessness in the matter of begetting children.

(ix) **The Climatic Conditions of India** are also very conducive to the growth of population. The tropical climate stimulates sex urge. Montesquieu said that people of warm land are more sex-

indulgent. Further, girls become physically mature at an early age ranging from 11 to 15 years of age. Immediately after puberty they are pushed into marriage and they begin to bear children. Child-bearing capacity of women lasts in the tropical places.



### CAUSES OF HIGH BIRTH RATE IN INDIA

**1. Early and Universal Marriage:** The practice of marriage is both a religious and social ceremony which is the potent reason of the rapid increase in population of India. About 80 per cent girls are married during the most fertile period of 15 to 20 years of age. But, in sharp contrast to this early reproduction age in our country, the percentage of unmarried girl, aged 30 in U.K. and 41 in U.S.A., is very high. Furthermore, by the age of 50 only 5 out of 1000 Indian women remain unmarried.

**2. Joint Family System:** Joint family system is still prevalent in the large part of the country which supports to population growth. Despite the fact, joint family system has started disintegrating in big cities; even then it still is the common feature. The joint family system induces young couples to have more children though they may not be in a position to support them. Thus, joint family system, to a greater extent, is responsible to increase population especially in rural areas of the country.

**3. Widespread Poverty:** Another factor responsible for rapid growth of population is the widespread poverty. In India per capita income is very low as compared to other advanced countries. Nearly 32 per cent of population is below the poverty line. Even those who are not below the poverty line are denied nutritious food and other amenities of life. Therefore, poverty is the main factor which is responsible against the acceptability of family planning programme properly by the poorer people.

**4. Religious and Social Superstitions:** According to Hindu ideology, it is considered one's dharma to have children. In any case, they must have a son because certain religious duties will be performed only by him and none else. Similarly, they should also have a daughter as the giving of a daughter in marriage is also an act high religious spirit. In this way, such irrational attitudes are based on wrong religion and social norms laid down by man. The birth of child is considered to be a gift of god. On account of these religious and social superstitions there is no check on raised population.



**5. Lack of Education:** Education can go a long way to change the attitude of the people towards family, marriage and the birth of a child. As a mass of population being Uneducated and illiterate cannot take keen interest in scientific education. As a result, they will remain backward and follow old religious superstitions. Education is a way to enlighten them and raise their standard of living. In India, only 56.34 percent population is literate according to the census of 2001.

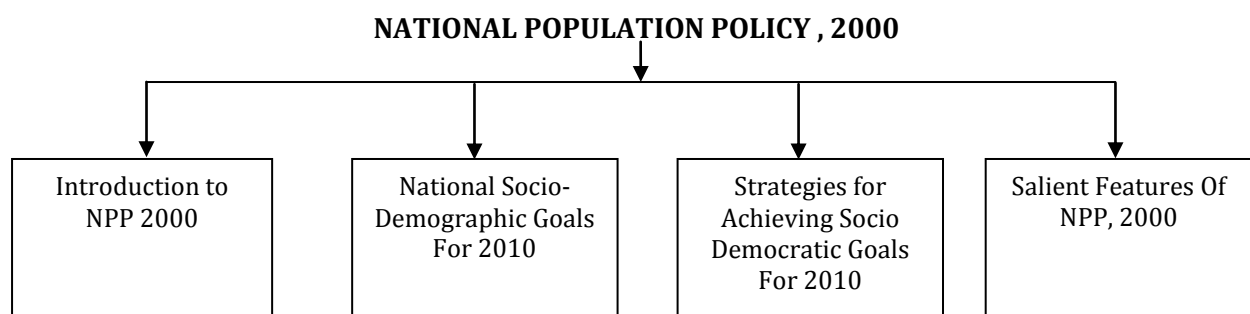
**6. Pre dominance of Agriculture:** India is an agricultural country and 67 per cent of population directly or indirectly is dependent on agriculture. This has not, much changed since 1901. In an agricultural economy, children find work easily on farms especially during the time of harvesting and sowing seasons. Thus, such economies has bigger families while in industrially advanced society, people prefer small families on economic grounds. Thus agricultural economies are generally backward over-populated and faced with the problem of disguised unemployment.

**7. Low Standard of Living:** As majority of people are illiterate and backward thus their standard of living is low as compared to their counter partners who are well educated and advanced. In backward areas, people are not in a position to educate wards. As soon as they are able to earn something they are married. Besides, they have no other way of recreation and they consider it a mean of entertainment. As a consequence, there is rapid increase in population.

**8. Decline in Mortality Rate:** The wide gap between the birth and death rate has considerably resulted in population explosion in the country. The death rate has declined dramatically due to control over many dreadful diseases. They are plague, malaria, snip pox and tuberculosis. Fortunately, these chronic diseases are no longer a threat to the villagers. The growing awareness and facilities for sanitation and cleanliness has helped; reduce the incidence of mortality to a larger extent.

**9. Control of Famines and Floods:** During the early years of 19th century, India witnessed countless famines and floods in the country. The Bengal Famine of 1943 had toll of lakhs. But, now these type of famines are the talk of past only. Moreover, increased network of transportation and cooperation among different nations has reduced impact. During seventies and eighties some minor changes of drought occurred in the country. But in brief, any improvement in material well-being means a reduction mortality rates.

**10. Slow Process of Urbanisation:** In India, the pace of industrialization is very slow which further slows down the process of urbanization in the country. As a result it failed to generate social forces as they are useful to bring down the birth rate. No doubt, according to 1991 census, urban population has been recorded 23.78 per cent against 17.6 per cent in 1951. Still the pace of urbanization is rather slow as compared to other developed countries.



## INTRODUCTION

- 1) National Population Policy of India was formulated in the year 2000 with the long term objective of achieving a stable population by 2045, at a level consistent with the requirements of sustainable economic growth, social development, and environmental protection.
- 2) The immediate objective of the policy is 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.
- 3) The medium-term objective is to bring the TFR (Total Fertility Rate) to replacement levels by 2010, through vigorous implementation of inter-sectoral operational strategies. TFR is the average number of children each woman would have in her life time.
- 4) The National Population Policy, 2000 (NPP 2000) affirms the commitment of government towards voluntary and informed choice and consent of citizens while availing of reproductive health care services, and continuation of the target free approach in administering family planning services.

## NATIONAL SOCIO-DEMOGRAPHIC GOALS FOR 2010

National Population Policy pursues to achieve following Socio-Demographic goals by 2010:

- 1) Address the unmet needs for basic reproductive and child health services, supplies and infrastructure.
- 2) Make school education up to age 14 free and compulsory, and reduce drop outs at primary and secondary school levels to below 20 percent for both boys and girls.
- 3) Reduce infant mortality rate to below 30 per 1000 live births.
- 4) Reduce maternal mortality ratio to below 100 per 100,000 live births.
- 5) Achieve universal immunization of children against all vaccine preventable diseases.(polio etc.)
- 6) Promote delayed marriage for girls, not earlier than age 18 and preferably after 20 years of age.
- 7) Achieve 80 percent institutional deliveries and 100 percent deliveries by trained persons.
- 8) Achieve universal access to information/counseling, and services for fertility regulation and contraception with a wide basket of choices.
- 9) Achieve 100 per cent registration of births, deaths, marriage and pregnancy.
- 10) 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 Organisation.
- 11) Prevent and control communicable diseases.
- 12) Integrate Indian Systems of Medicine (ISM) in the provision of reproductive and child health services, and in reaching out to households.
- 13) Promote vigorously the small family norm to achieve replacement levels of TFR.
- 14) Bring about convergence in implementation of related social sector programs so that family welfare becomes a people centred programme.

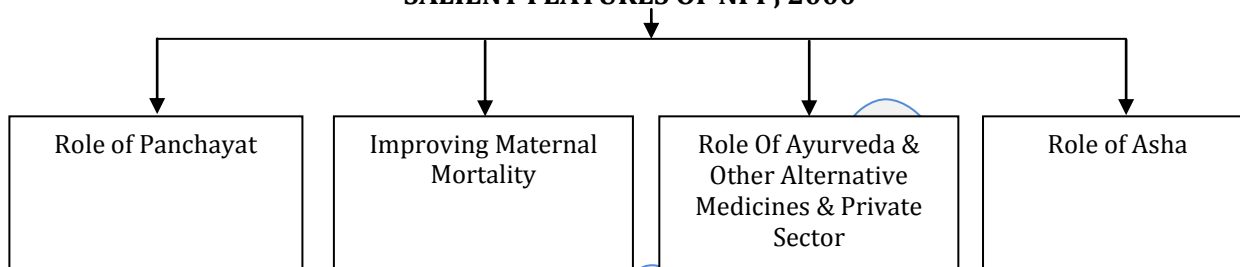
## STRATEGIES FOR ACHIEVING SOCIO DEMOCRATIC GOALS FOR 2010

In order to achieve the above goals Population Commission has identified 12 strategic themes. These are given below:

- 1) Decentralized planning and programme implementation
- 2) Convergence of service delivery at village levels
- 3) Empowering women for improved health and nutrition
- 4) Child health and survival
- 5) Meeting the unmet needs for family welfare services in urban and rural areas
- 6) Meeting the unmet needs for family welfare services specially among urban slums, tribal communities, hill area populations and displaced and migrant populations, and adolescents, and securing increased participation of men in planned parenthood
- 7) Diverse health care providers

- 8) Collaboration with and commitments from non-government organisations and the private sector
- 9) Mainstreaming Indian systems of medicine and homeopathy
- 10) Contraceptive technology and research on reproductive and child health
- 11) Contraceptive technology and research on reproductive and child health
- 12) Information, education, and communication

#### SALIENT FEATURES OF NPP, 2000



#### It stressed the role of Panchayats

- 1) It is clear that in 2000 there was a paradigm shift in population policy. The NPP 2000 has made family welfare a new responsibility of village panchayats. They are expected to develop area specific, needs based approaches to reproductive health services.
- 2) As quoted in NPP 2000 "The panchayats should seek the help of community opinion makers to communicate the benefits of smaller, healthier families, the significance of educating girls, and promoting female participation in paid employment. They should also involve civil society in monitoring the availability, accessibility and affordability of services and supplies."

#### It stressed the role of improving maternal mortality

NPP 2000 recognizes the importance of improving maternal mortality. It says:

Maternal mortality is not merely a health disadvantage; it is a matter of social injustice. Low social and economic status of girls and women limits their access to education, good nutrition, as well as money to pay for health care and family planning services. The extent of maternal mortality is an indicator of disparity and inequity in access to appropriate health care and nutrition services throughout a lifetime, and particularly during pregnancy and child-birth, and is a crucial factor contributing to high maternal mortality.

#### It stressed the role of ayurveda & other alternative medicines & private sector

NPP 2000 also recognizes the role of Ayurveda, Yoga, Unani, Siddh and Homeopathy systems of medicine and (AYUSH) and the role of private practitioners and traditional healers though it is felt that "mobilising the private (profit and non-profit) sector to serve public health goals raises governance issues of contracting, accreditation, regulation, referral, besides the appropriate division of labour between the public and private health providers, all of which need to be addressed carefully". Ultimately the goal is to reach the people and promote low cost health care, specially the vulnerable sections of society such as urban slums, tribal communities, hill area populations and displaced and migrant populations, and adolescents.

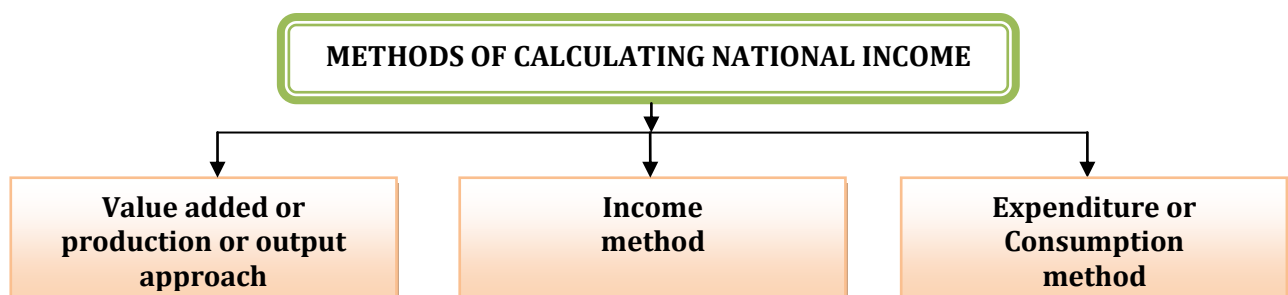
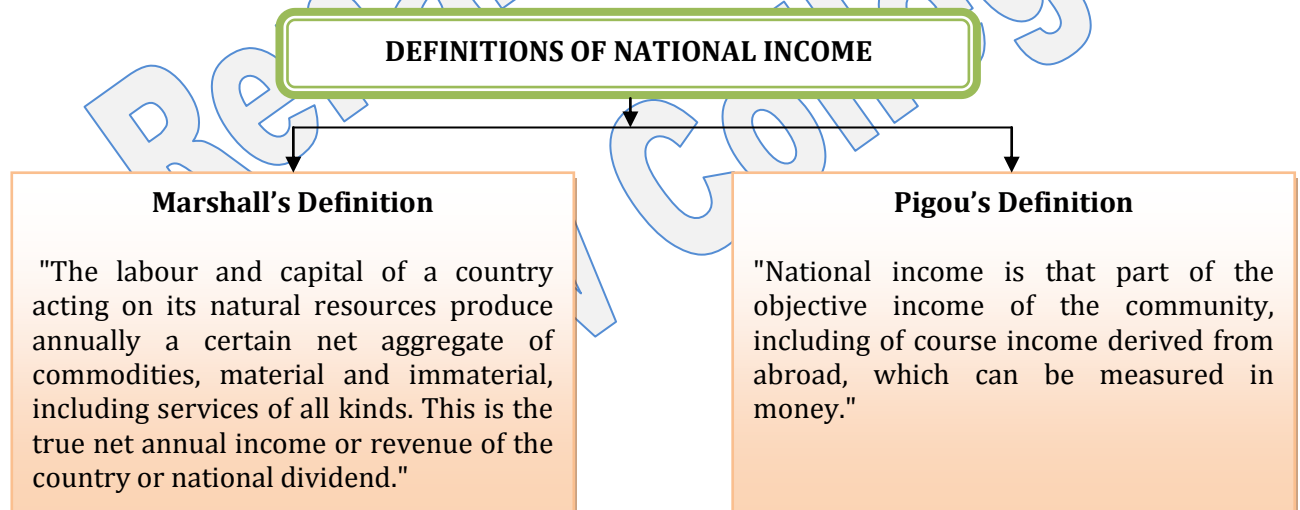
#### Creation & Role Of Asha

Accredited social health activists (ASHAs) are community health workers instituted by the government of India's Ministry of Health and Family Welfare (MoHFW) as part of the National Rural Health Mission (NRHM). The mission began in 2005; full implementation was targeted for 2012. Once fully implemented, there is to be "an ASHA in every village.

ASHAs are responsible for:



- 1) ASHA will be the first port of call for any health related demands of deprived sections of the population, especially women and children, who find it difficult to access health services.
- 2) ASHA will be a health activist in the community who will create awareness on health and its social determinants and mobilise the community towards local health planning and increased utilisation and accountability of the existing health services.
- 3) She would be a promoter of good health practices and will also provide a minimum package of curative care as appropriate and feasible for that level and make timely referrals.
- 4) ASHA will provide information to the community on determinants of health such as nutrition, basic sanitation & hygienic practices, healthy living and working conditions, information on existing health services and the need for timely utilisation of health & family welfare services.
- 5) She will counsel women on birth preparedness, importance of safe delivery, breast-feeding and complementary feeding, immunization, contraception and prevention of common infections including Reproductive Tract Infection/Sexually Transmitted Infections (RTIs/STIs) and care of the young child.
- 6) ASHA will mobilise the community and facilitate them in accessing health and health related services available at the Anganwadi/sub-centre/primary health centers, such as immunisation, Ante Natal Check-up (ANC), Post Natal Check-up supplementary nutrition, sanitation and other services being provided by the government.
- 7) She will act as a depot older for essential provisions being made available to all habitations like Oral Rehydration Therapy (ORS), Iron Folic Acid Tablet(IFA), chloroquine, Disposable Delivery Kits (DDK), Oral Pills etc.



### **Value added or production or output approach**

- 1) The output approach focuses on finding the total output of a nation by directly finding the total value of all goods and services a nation produces.
- 2) Problem of Double counting: Because of the complication of the multiple stages in the production of a good or service, only the final value of a good or service is included in the total output. This avoids an issue often called 'double counting', wherein the total value of a good is included several times in national output, by counting it repeatedly in several stages of production. In the example of meat production, the value of the good from the farm may be Rs10, then Rs 30 from the butchers, and then Rs 60 from the supermarket. The value that should be included in final national output should be Rs 60, not the sum of all those numbers, Rs 90. The values added at each stage of production over the previous stage are respectively Rs 10, Rs 20, and Rs 30. Their sum gives an alternative way of calculating the value of final output.

### **Income method**

The income approach equates the total output of a nation to the total factor income received by residents or citizens of the nation. The main types of factor income are:

- Employee compensation/ salaries & wages (cost of fringe benefits, including unemployment, health, and retirement benefits);
- Interest received net of interest paid;
- Rental income (mainly for the use of real estate) net of expenses of landlords;
- Royalties paid for the use of intellectual property and extractable natural resources.
- Corporate Profits

### **Expenditure or Consumption method**

The expenditure approach is basically an output accounting method. It focuses on finding the total output of a nation by finding the total amount of money spent. This is acceptable, because like income, the total value of all goods is equal to the total amount of money spent on goods

$$\text{GDP} = C + I + G + (X - M)$$

Where:

**C** = household consumption expenditures / personal consumption expenditures

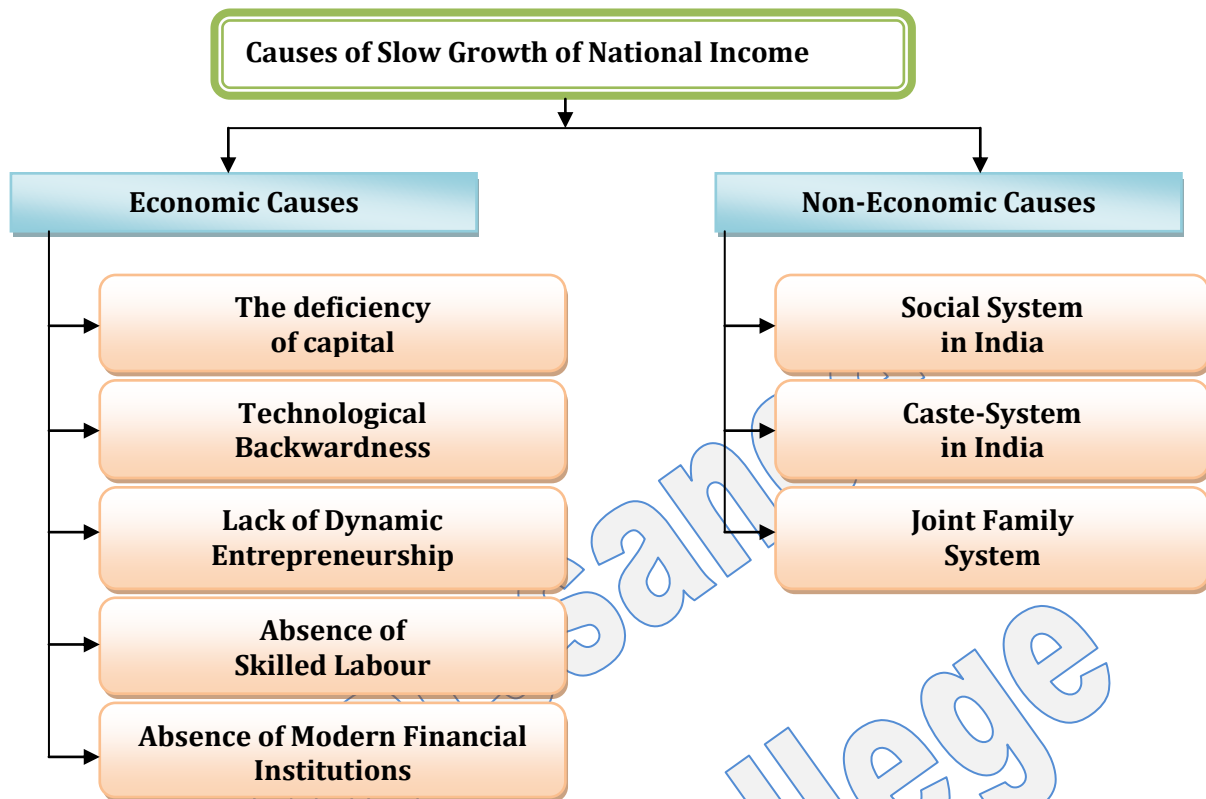
**I** = gross private domestic investment

**G** = government consumption and gross investment expenditures

**X** = gross exports of goods and services

**M** = gross imports of goods and services

Note: **(X - M)** is often written as **X<sub>N</sub>**, which stands for "net exports"



Following are the reasons for the slow growth of national income in India –

#### Economic Causes—

- 1) **The deficiency of capital** - The deficiency of capital holds up the productive potential of the economy restricting investment, and thereby employment optimum muffles in the economy. The gross domestic investment as a ratio of (HM' was 23.3% in India in 1999-2000, while it was 40% in China. This difference explains the existence of different growth-rates in the two economies.
- 2) **Technological backwardness** - Technological backwardness has resulted in the employment of old and backward techniques, which in turn has restricted the productivity of the factors of production. This is true both in the agricultural and the industrial sectors. Some changes invariably have been recorded specially in large-scale industries, but they are like oasis in the desert. It would not be far from truth to say that the Indian economy still uses less capital than what is desirable.
- 3) **Lack of Dynamic Entrepreneurship** - Dynamic Entrepreneurship has been lacking in India owing to the absence of favorable economic and socio-cultural factors. Entrepreneurship flourishes in an environment, where there is large market making investment on a large scale economically viable, and also where there are sufficient funds available to draw upon. In India what we find is that the very low level of per capita income has resulted in restricting the purchasing power with the masses; in consequence, a number of productive units in a number of industries like textiles, automobiles, chemical, engineering goods, coal, etc. are working below their capacity, because of lack of demand for their products.
- 4) **Absence of Skilled Labour** – The Absence of Skilled Labour is another factor hindering the process of economic development. The fact that a number of industries are clamoring for trained and specialized personnel to man their jobs sounds very paradoxical, when we know that India is a labour-surplus economy. But it is true to a great extent.

- 5) **Absence of Modern Financial Institutions** – The Absence of Modern Financial Institutions has prevented India from becoming an advanced country. Undoubtedly, a number of such institutions like the Industrial Development Bank of India, Industrial Finance Corporation of India, State Financial Corporations and NABARD etc. have been set up. But the progress is not adequate to meet our requirements for agriculture and industry.

**Non-Economic Causes—**

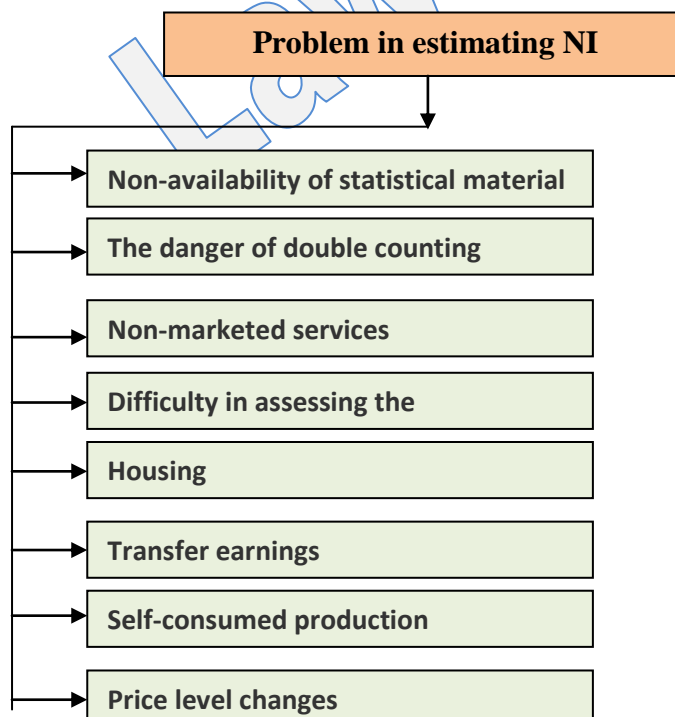
- 1) **Social System in India** - The social system in India has worked to check India's economic growth. The vast inequalities of income that exist in the society have prevented the optimum utilization of the available resources. Large sections of people are living below the poverty line, while a few are rolling in wealth.
- 2) **Caste-System in India** - Caste-System in India which divides people into different castes and forces them to follow only the hereditary jobs is unfavorable from the point of view of economic growth. It restricts mobility of labour and adversely affects the efficiency of labour. Lower efficiency of labour in turn results in lower productivity and lower aggregate income for the economy.
- 3) **Joint Family System** - Joint Family System is also a hindrance and does not provide per incentives for hard work. It also leads to higher propensity to consume, tiding to adverse effects on community's savings and its efforts towards capital formation.

**Conclusion –**

For rapid economic development, concerted efforts of both economic and non-economic factors are required. To sum up, for rapid economic development of India we should give proper attention to both economic and non-economic factors.

**Problem in estimating NI**

According to Kuznets, the measurement of national income is a complicated problem and is beset with the following difficulties.





**(i) Non-availability of statistical material:** Some persons like electricians, plumbers, etc., do some job in their spare time and receive income. The state finds it very difficult to know the exact amount received from such services. This income which, should have been added to: the national income is not recorded due to lack of full information of statistics material.

**(ii) The danger of double counting:** While computing the national income, there is always the danger of double or multiple counting. If care is not taken in estimating the income, the cost of the commodity is likely to be counted twice or thrice and national income will be overestimated.

**(iii) Non-marketed services:** In estimating the national income, only those services are included for which the payment is made. The unpaid services or non-marketed services are excluded from the national income.

**(iv) Difficulty in assessing the depreciation allowance:** The deduction of depreciation allowances, accidental damages, repair, and replacement charges from the national income is not an easy task. It requires high degree of judgment to assess the depreciation allowance and other charges.

**(v) Housing:** A person lives in a rented house. He pays Rs. 5000 .per month to the landlord. The income of the landlord is recorded in the national income. Let us suppose that the tenant- purchases the same house from the landlord. Now the income of the owner occupant has increased by Rs. 5000. Is it not justifiable to include this income in the national income? Should or should not this income be recorded in the national income is still a controversial question.

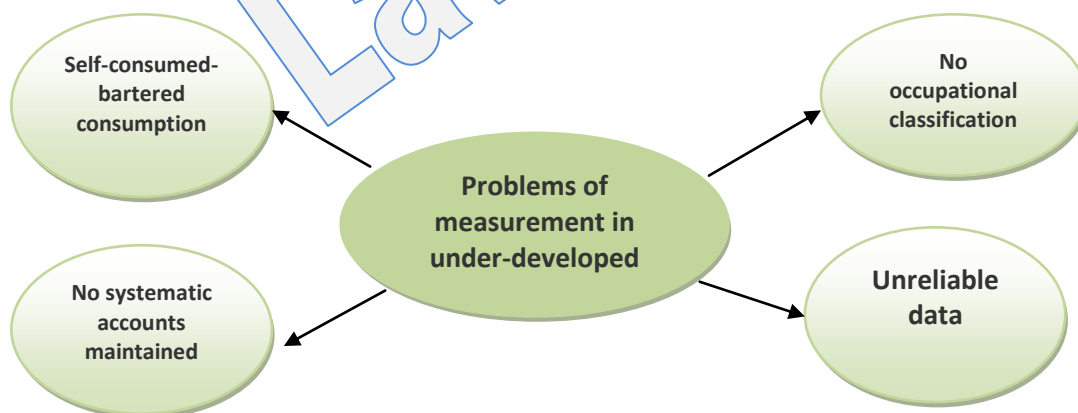
**(vi) Transfer earnings:** While measuring the national income, it should be seen that transfer payments should not become a part of national income. The payments made as relief allowance, pensions, etc. do not contribute towards current production. So they should be excluded from national income.

**(vii) Self-consumed production:** In developing countries, a significant part of the output is not exchanged for money in the market. It is either consumed directly by producers or bartered for other goods. This unorganized and non-monetized sector makes calculation of national income difficult.

**(viii) Price level changes:** National income is measured in money terms. The measuring rod of money itself does not remain stable. This means that national income can change without any change in output.

#### Problems of measurement in under-developed countries:

The national income in under-developed countries like Pakistan cannot be accurately measured due to the following reasons:



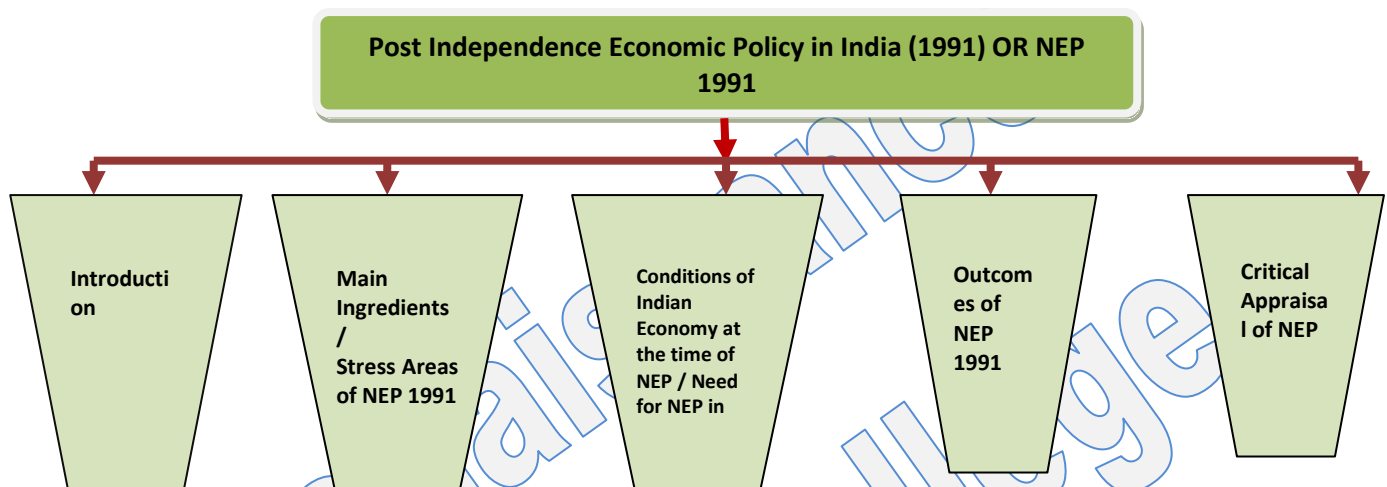
**1. Self-consumed-bartered consumption:** Some of the transactions of agricultural goods in the villages are done without the use of money. The statisticians. therefore, cannot measure the exact amount of the transactions for inclusion in the national income.

**2. No systematic accounts maintained:** Most of the producers do not keep any record of the sale of the products in the market. This makes the task of national income still more complicated.

**3. No occupational classification:** There is no occupational specialization in the under-developed countries. People receive Income by working in various capacities. One person sometimes works as carpenter and at another time as mason. The statisticians cannot accurately measure the income of such persons.

**4. Unreliable data:** The statisticians themselves do not feel the importance of figures which they collect. They also do not take much pains for getting the reliable data. The figures of national Income are, therefore, not up-to-date in the under-developed countries.

### Post Independence Economic Policy in India (1991) OR NEP 1991



**Introduction:** The term 'New Economic Policy' (NEP) is a signification of the process of dismantling 'license-permit-subsidy Raj' and to infuse liberalization in the management of the economy. Hence, the New Economic Policy seeks to scrap the undesirable restrictions, controls and licensing over investment, imports and production.

### Main Ingredients/Stress Areas of NEP 1991

The main ingredients of the New Economic Policy may be spelled out as follows –

- a) Restoration of competition.
- b) Progressive dismantling of industrial licensing system.
- c) Liberalization of trade regime and ushering in a new era of competitiveness in imports and exports.
- d) Re-orientation of fiscal policy.
- e) Necessary amendment in the Monopolies and Restrictive Trade Practices (MRTP) Act to enable the larger business houses to invest their resources in industries which are of national importance and for which smaller companies could not muster sufficient funds to invest;
- f) Liberalisation of policy regime for direct foreign investment and foreign technology agreements;
- g) A bigger role for the private sector;
- h) Technological upgradation in all the spheres of economic activities to 'take the country to 21<sup>st</sup> century'; and
- i) A long-term perspective instead of frequent changes in the areas of fiscal, import and export policies.

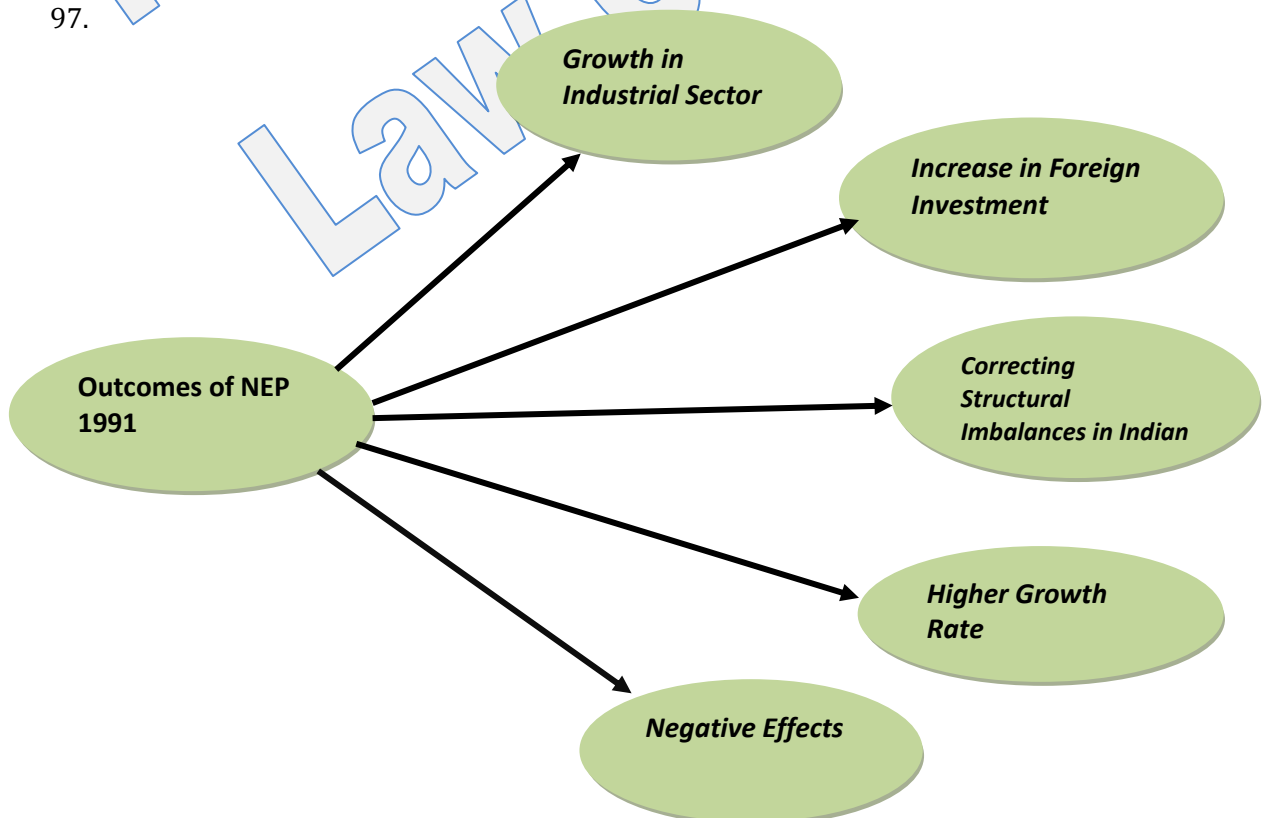
### Conditions of Indian Economy at the time of NEP / Need for NEP in 1991

Assessment of New Economic Policy – The economic scenario at that time (1991-92) could best be judged from the following alarming facts:

- a) The rate of economic growth was 0.9 per cent
- b) The rate of growth in industrial production was 0.6 per cent;
- c) The negative growth of 4.5 percent in Food grains;
- d) The negative growth of 2.0 percent in agricultural production;
- e) The foreign exchange cover of imports was for 3 months only; and
- f) The inflation rate was 13.6 per cent.

**Outcomes of NEP 1991 –**

- 1) **Growth in Industrial Sector** - The economic reforms have got the industrial sector extricated from the recession. The growth rate of industrial production has successively gone up from 0.6 percent in 1991-92 to 2.3 percent in 1992-93 and to 6.0 percent in 1993-94 and further to 9.4 percent in 1994-95 Industrial production increased further by 12.8 percent in 1995-96.
- 2) **Increase in Foreign Investment** - The liberalized foreign investment policy has led to the inflow of massive private foreign investment. It has increased from \$158 million during 1991-92 to 5025 million during 1997-98.
- 3) **Correcting Structural Imbalances in Indian tax structure** The fiscal reforms have helped in correcting structural imbalances in Indian tax structure. The share of direct taxes in gross tax revenue has risen from 19.1 percent in 1990-91 to 28.4 percent in 1994-95.
- 4) **Higher Growth Rate** - The post-economic reforms period has witnessed higher growth rate as compared to pre-reforms period. It is despite industrial recession and dismal performance of the export trade. The comfortable position of foreign exchange reserves and sufficient stock of foodgrains have enabled the economy to achieve good growth rate, along with inflation around 6 percent during 1997-98 and 1998-99. The agricultural growth of 3.4 percent has also helped to achieve around 5 percent growth in GDP during the year of recession.
- 5) **Negative Effects** - As against the above mentioned positive effects of economic reforms, their failures are growing unemployment and poverty. The growth rate of employment in the organized sector was 1.44 percent in 1991. Since then it has been showing downward swing except in 1996, when it was 1.51 percent. It is also to be stressed that during 1991-92 to 1996-97.



### Critical Appraisal of NEP

#### Arguments in favour of NEP –

- 1) As NEP has stressed the approach of delicensing, decontrol, deregulation, devaluation, desubsidisation and debureaucratisation in Indian economy, it will spur economic growth and economic liberalization will make Indian economy more efficient and competitive internally as well as internationally. License-Permit Raj would be reduced to the minimum, and delays, inefficiency and corruption would be minimized to some extent in future.
- 2) NEP would boost foreign private investment in Indian economy and increase foreign exchange resources of the country. It will promote domestic private investment as well, because some areas of economic activity like power generation and telecommunications would now be opened for the private sector (domestic as well as foreign), which were earlier confined to the public sector only.
- 3) It will help in globalizing Indian economy and make it competitive internationally.
- 4) The NEP is not the total economic policy of the government, because poverty-alleviation-policy, employment policy, etc. would be continued separately in the Five Year Plans to solve problem related with these areas.
- 5) It will take care of the interests of the vulnerable sections of the people also because it is not anti-poor, and their interests will be safeguarded through revamped public distribution system, more investments in agriculture, more emphasis on social services like education, health, family planning, etc. and more outlay on rural development.
- 6) Foreign exchange reserves increased to \$156 billion on June 10, 2006 (excluding gold) as compared to \$1 billion in July, 1991, and our credibility has increased in international community and IMF. World Bank and several developed countries have welcomed the policy in the past and assured us regarding their assistance in our developmental programmes for the future.
- 7) Foreign private investment proposals have increased to a great extent during the post-reform years which help in the industrial growth of India.

#### Arguments against NEP –

- 1) It could not promote growth rate in the beginning. Agricultural growth was modest. From mid-1996, there is recession in the industrial sector and export growth rate during 1998-99 was poor and disappointing.
- 2) Industrial growth rate was low in the first few years. It picked up in 1995-96, but still there are several problems hindering rapid industrial growth of India. India is facing industrial slow-down even in early 2001.
- 3) The problem of inflation may raise its ugly head at any time, although on point-to-point basis, it was 2.3% based on Consumer Price Index Numbers in April 2001. [From 438 in April 2000 it became 448 in April 2001 (1982=100)]. But that is not a stable situation so far as inflation is concerned. Inflation rate based on wholesale Price Index Numbers is about 5% in August, 2001 (on weekly-basis).
- 4) It may increase unemployment due to the 'exit policy' for sick public enterprises which would lead to retrenchment of labour, without any guarantee for retraining and redeployment of the same.
- 5) More loans from IMF/WB and bilateral countries like Japan and Germany etc. would increase India's international indebtedness in post reform period. This may land India again in economic crisis of the type that we saw in 1991.
- 6) Economic sovereignty of India would be in danger and IMF/World Bank and MNCs would dictate terms and conditions to us and we would be in a much worse position and more difficult situation in future.

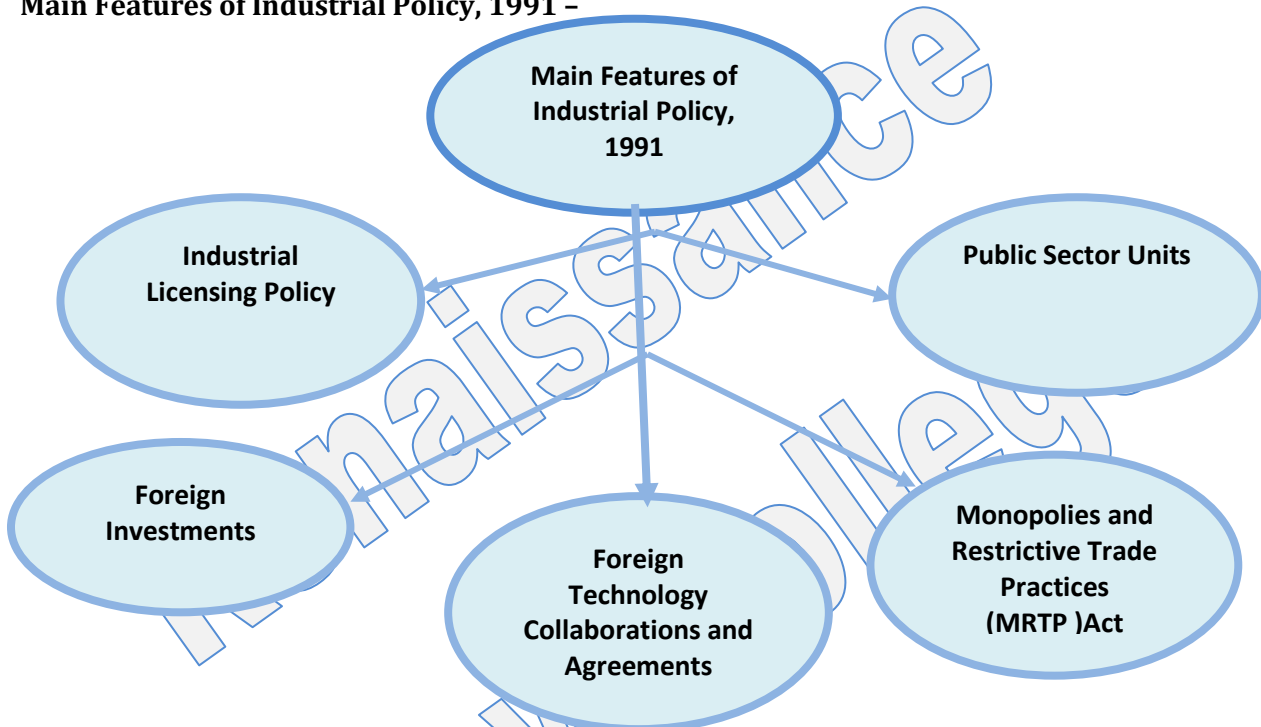


### Industrial Policy Resolution (IPR), 1991 –

**Introduction:** It was announced in Parliament on July 24, 1991 and the main objectives of the Resolution were:

- 1) To build up further on the gains already achieved in respect of industrial developments.
- 2) To rectify the distortions and weaknesses which had crept in, in the pattern of industrial growth and may possibly creep in, in future.
- 3) To maintain sustained growth in productivity and gainful employment.
- 4) To attain technological dynamism and global competitiveness.

### Main Features of Industrial Policy, 1991 –



- 1) **Industrial Licensing Policy**—It was decided that industrial licensing will be abolished for all projects except those of strategic importance like security, social reasons, hazardous chemicals, never-ending environmental reasons and the items of elitist consumption. Initially eighteen industries have been identified as priority industries for which licensing is compulsory for their installation.

Also, the mandatory convertibility clause, for term loans from financial institutions, in-respect of new projects has been abolished. Instead, Broad-Banding facility was provided for the existing units.

- 2) **Foreign Investments** – To accomplish industrial development on modern lines and latest technological basis, foreign investment was permitted with the objective to bring in new technology, marketing expertise, modern management and new possibilities of export promotion in the country. Following measures have been adopted for this purpose :

- 1) Direct foreign investment upto 51% of the foreign equity will be permitted in high priority industries.
- 2) The payment of dividends would be monitored through the Reserve Bank of India, so as to ensure that the outflow in the form of dividends is balanced by the export earnings over a period of time.
- 3) The investments of big foreign firms will be examined and will be considered in totality and this will be free from any predetermined parameters.

**3) Foreign Technology Collaborations and Agreements** – In respect of the above, the following important guidelines have been proposed :

- 1) An automatic approval will be accorded by the Government in respect of technological agreements in high priority industries upto a lump sum payment of Rs. 1 crore, 5% royalty for domestic sales and 8% for exports subject to total payment of 8% of sales over 10 year period from the date of agreement or over 7 years period from the date of commencement of production.
- 2) In respect of industries other than specified in schedule A, an automatic permission will be granted subject to certain guidelines.

**4) Public Sector Units** – The public sector units will be confined to essential infrastructure, strategic and high technology areas. The MOU (Memorandum of Understanding) between the Government and the public sector undertaking will be necessary.

Professional Management will be developed. The cases of sick public sector units will be referred to BIFR (Board of Industrial and Financial Reconstruction) for scrutiny before taking any decision in respect of such units—either for revival or closure.

Another important decision in respect of Government share holding is that such share holdings will be offered to mutual fund, financial institutions, general public and the workers for the purpose of augmenting the financial resources of the public sector units.

### **5) Monopolies and Restrictive Trade Practices**

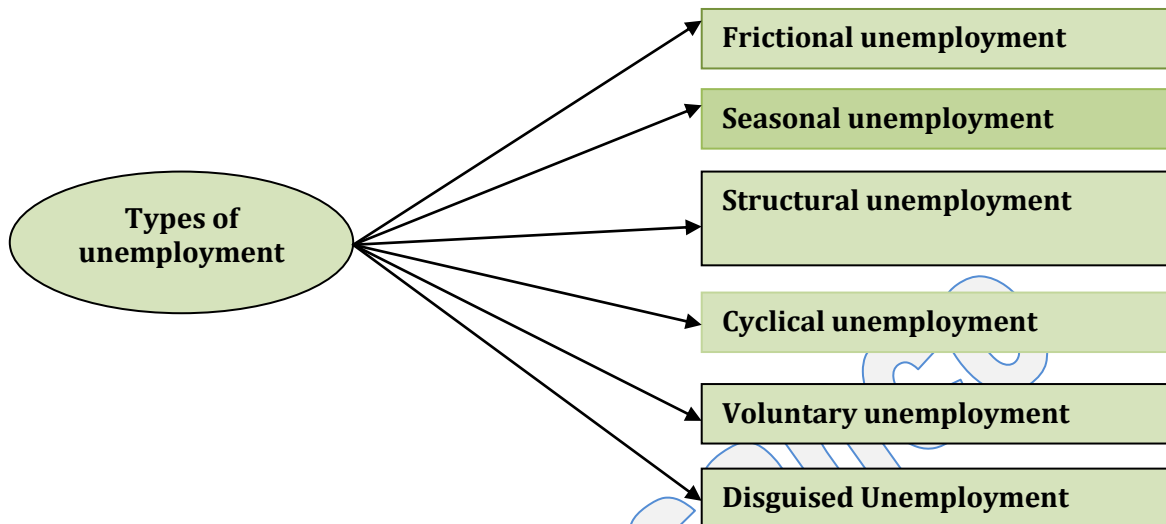
**MRTTP Act** – The following measures were adopted for companies under MRTTP Act;

- 1) It was decided that the MRTTP Act would be suitably amended to remove the threshold limit of assets in respect of the MRTTP companies and the important dominant undertakings.
- 2) Emphasis would be placed on controlling the monopolistic, restrictive and unfair trade practices.

### **UNEMPLOYMENT IN INDIA**

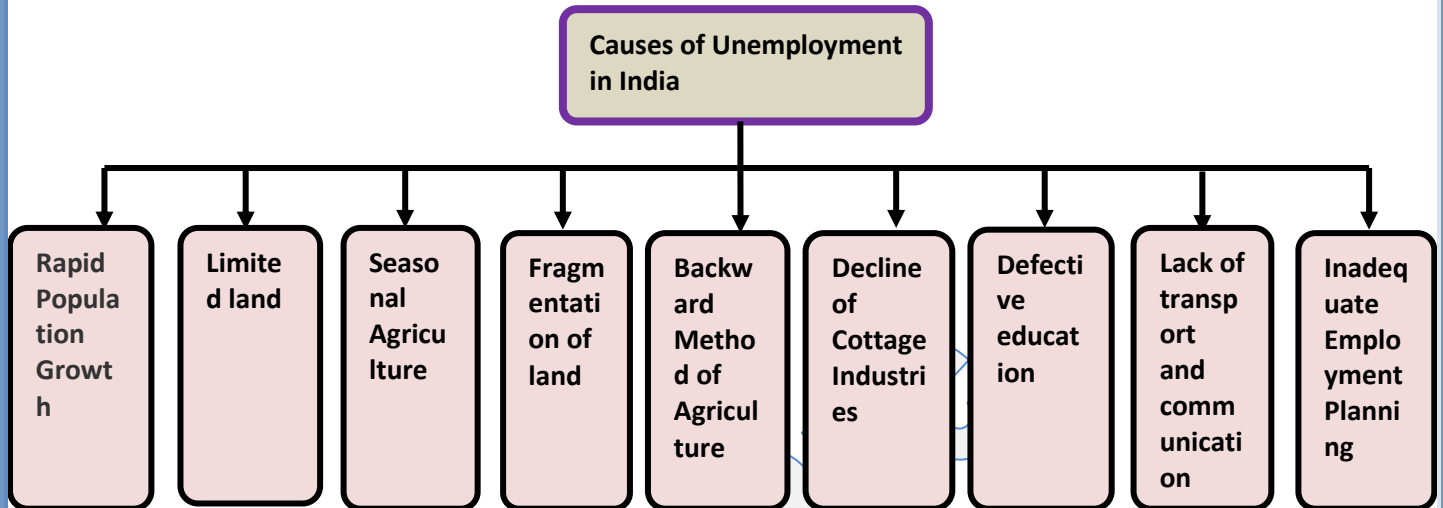
**Introduction** : Employment generation has been one of the important objectives of development planning in India. The problem of employment is closely interlinked with the eradication of poverty. There are three main aspects of the employment problem in India. They are the problem of proportion of labour to total population, problem of productivity of labour and problem of unemployment and underemployment of labour. These three aspects are interrelated. There is low rate participation of labour in India. Low rate of employment among women is a striking feature in India. There has almost been no change in LFPR (labour force participation rate). The dependency rate is quite high in India. Problem of unemployment and underemployment is the chronic feature of the Indian economy. It is the main cause of poverty in India. Unemployment in India is mostly structural. The rate of unemployment is different in different states. Sector wise unemployment in India is rural and urban unemployment

### Types of unemployment



- 1) **Frictional unemployment** :Frictional unemployment is a kind of unemployment that occurs when people are “between jobs” or are looking for their first jobs. It is a kind of unemployment that occurs when the economy is trying to match people and jobs correctly. So, if you get fired for poor work, if you quit because you dislike your job, or if you are just looking for your first job, you are frictionally unemployed.
- 2) **Seasonal unemployment** : Seasonal unemployment occurs when people are not working because their jobs only exist at some times of the year. Agricultural and construction workers are examples of this type of unemployment.
- 3) **Structural unemployment** Structural unemployment occurs when a given set of skills is no longer needed in a given economy. For example, E.g. closure of mines, left many miners struggling to find suitable work. For example, there may be jobs available in the service sector, but unemployed miners don’t have the relevant skills to be able to take the jobs
- 4) **Cyclical unemployment**: Cyclical unemployment, which economists say is the worst kind. In this kind of unemployment, people are out of work because the economy has slowed and there is no demand for whatever the workers make. This sort of unemployment occurs during recessions.
- 5) **Voluntary unemployment**: is a situation when a person is unemployed because of not being able to find employment of his/her own choice. It is a situation when a person is unemployed. Sometimes people reject employment opportunities if they do not receive desired wages or if they are not offered the kind of work they wish to do.
- 6) **Disguised Unemployment**: Disguised unemployment is the most widespread type of unemployment in under-developed countries. In under-developed countries, the stock of capital does not grow fast. The capital stock has not been growing at a rate fast enough to keep pace with the growth of population, the country’s capacity to offer productive employment to the new entrants to the labour market has been severely limited. This manifests itself generally in two ways: (i) the prevalence of large-scale unemployment in the urban areas; and (ii) in the form of growing numbers engaged in agriculture, resulting in ‘disguised unemployment’

### Causes of Unemployment in India

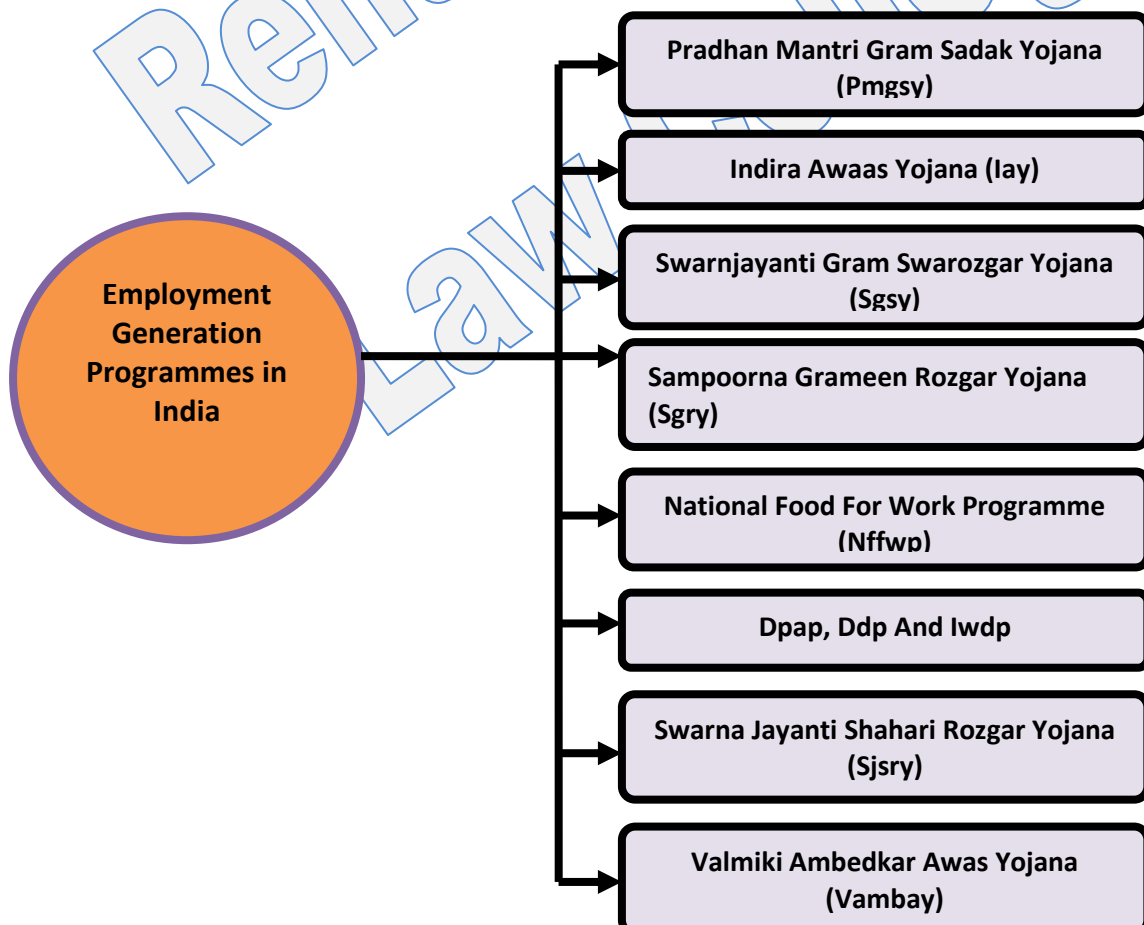


- 1) **Rapid Population Growth:** It is the leading cause of unemployment in Rural India. In India, particularly in rural areas, the population is increasing rapidly. It has adversely affected the unemployment situation largely in two ways. In the first place, the growth of population directly encouraged the unemployment by making large addition to labour force. It is because the rate of job expansion could never have been as high as population growth would have required.
- 2) **Limited land:** Land is the gift of nature. It is always constant and cannot expand like population growth. Since, India population increasing rapidly, therefore, the land is not sufficient for the growing population. As a result, there is heavy pressure on the land. In rural areas, most of the people depend directly on land for their livelihood. Land is very limited in comparison to population. It creates the unemployment situation for a large number of persons who depend on agriculture in rural areas.
- 3) **Seasonal Agriculture:** In Rural Society agriculture is the only means of employment. However, most of the rural people are engaged directly as well as indirectly in agricultural operation. But, agriculture in India is basically a seasonal affair. It provides employment facilities to the rural people only in a particular season of the year. For example, during the sowing and harvesting period, people are fully employed and the period between the post harvest and before the next sowing they remain unemployed. It has adversely affected their standard of living
- 4) **Fragmentation of land:** In India, due to the heavy pressure on land of large population results the fragmentation of land. It creates a great obstacle in the part of agriculture. As land is fragmented and agricultural work is being hindered the people who depend on agriculture remain unemployed. This has an adverse effect on the employment situation. It also leads to the poverty of villagers.
- 5) **Backward Method of Agriculture:** The method of agriculture in India is very backward. Till now, the rural farmers followed the old farming methods. As a result, the farmer cannot feed properly many people by the produce of his farm and he is unable to provide his children with proper education or to engage them in any profession. It leads to unemployment problem.
- 6) **Decline of Cottage Industries:** In Rural India, village or cottage industries are the only means of employment particularly of the landless people. They depend directly on various cottage industries for their livelihood. But, now-a-days, these are adversely affected by the industrialization process. Actually, it is found that they cannot compete with modern factories in matter of production. As a result of which the village industries suffer a serious loss and gradually closing down. Owing to this, the people who work in there remain unemployed and unable to maintain their livelihood.



- 7) **Defective education:** The day-to-day education is very defective and is confirmed within the class room only. Its main aim is to acquire certificated only. The present educational system is not job oriented, it is degree oriented. It is defective on the ground that is more general then the vocational. Thus, the people who have getting general education are unable to do any work.
- 8) **Lack of transport and communication:** In India particularly in rural areas, there are no adequate facilities of transport and communication. Owing to this, the village people who are not engaged in agricultural work are remained unemployed. It is because they are unable to start any business for their livelihood and they are confined only within the limited boundary of the village. It is noted that the modern means of transport and communication are the only way to trade and commerce. Since there is lack of transport and communication in rural areas, therefore, it leads to unemployment problem among the villagers.
- 9) **Inadequate Employment Planning:** The employment planning of the government is not adequate in comparison to population growth. In India near about two lakh people are added yearly to our existing population. But the employment opportunities did not increase according to the proportionate rate of population growth. As a consequence, a great difference is visible between the job opportunities and population growth.
- On the other hand it is a very difficult task on the part of the Government to provide adequate job facilities to all the people. Besides this, the government also does not take adequate step in this direction. The faulty employment planning of the Government expedites this problem to a great extent. As a result the problem of unemployment is increasing day by day.

#### Employment Generation Programmes in India



To tackle the twin problems of growing unemployment and poverty in India, the government has come up with some employment generation and poverty alleviation programmes. A special group for creating 10 million employment opportunities per year over the 10th plan period was constituted by the Planning Commission. The group recommended that besides the employment generated presently, certain labour intensive sectors like agriculture, small industries and tourism need to be promoted. This way, an additional 20 million jobs can be created.

**(A) Pradhan Mantri Gram Sadak Yojana (Pmgsy)**

Launched in December 2000 as a 100 per cent CSS, PMGSY aims to provide all-weather connectivity to all the eligible unconnected rural habitations. Bharat Nirman, envisages connectivity by 2009 to all the habitations with a population of 1000 or more in the plains, and of 500 or more in the hilly, desert and tribal areas. The systematic upgradation of the existing rural road network also is an integral component of the scheme, funded mainly from the accruals of diesel cess in the Central Road Fund, with support of the multilateral funding agencies and the domestic financial institutions. Up to December 2005, with an expenditure of Rs.12,049 crore, a total length of 82,718 km. of road works had been completed.

**(B) Indira Awaas Yojana (Iay)** IAY aims to provide dwelling units, free of cost, to the Scheduled Castes (SCs), Scheduled Tribes (STs), and freed bonded labourers, and also the non-SC/ST BPL families in rural areas. It is funded on a cost-sharing basis in the rates of 75:25 between the Centre and the States. Under IAY, the ceiling on construction assistance is Rs.25,000/- per unit in the plains and Rs.27,500/- for hilly/difficult areas; and Rs. 12,500/- on upgradation of unserviceable kutcha house to pucca/semi pucca house for all areas. Up to January 30, 2006, about 138 lakh houses had been constructed/upgraded with an expenditure of Rs.25,208 crore.

**(C) Swarnjayanti Gram Swarozgar Yojana (Sgsy)** SGSY, launched in April, 1999 after restructuring the Integrated Rural Development Programme and allied schemes, is the only self-employment programme for the rural poor. The objective is to bring the selfemployed above the poverty line by providing them income-generating assets through bank credit and Government subsidy. Up to November 2005, the Centre and States, sharing the costs on 75:25 basis, had allocated Rs.8,067 crore, of which Rs. 6,980 crore had been utilized to assist 62.75 lakh self-employed.

**(D) Sampoorna Grameen Rozgar Yojana (Sgry)** SGRY, launched on September 25, 2001 to provide additional wage employment in the rural areas, has a cash and food grains component, and the Centre bears 75 per cent and 100 per cent of the cost of the two with the balance borne by the States/UTs. In 2004-05, 82.23 crore persondays were generated with the Centre releasing Rs. 4,496 crore as cash component and about 50 lakh tonnes of foodgrains to the States/ UTs. Besides, under the special component of the SGRY, with the States/UTs meeting the cash components, Centre released 26 lakh tonnes of foodgrains to the 13 calamity affected States. In 2005-06 up to November, 2005, the number of persondays generated under SGRY was 48.75 crore, while the Centre's contributions in terms of the cash and foodgrains components up to January, 2006 were Rs. 4651 crore and 35 lakh tonnes, respectively. Under the special component, about 11.65 lakh tonnes of foodgrains have been released to the 11 calamity-hit States in the current year

**(E) National Food For Work Programme (Nffwp)** The NFFWP was launched as a CSS in November 2004 in the 150 most backward districts to generate additional supplementary wage employment with food security. States receive food grains under NFFWP free of cost. The focus of the programme is on works relating to water conservation, drought proofing (including afforestation /tree plantation), land development, flood-control/protection (including drainage in waterlogged areas), and rural connectivity in terms of all-weather roads. In 2004-05, allocation of Rs 2,020 crore and 20 lakh tonnes of foodgrains generated 7.85 crore persondays of employment. In 2005-06, of the allocation of Rs 4,500

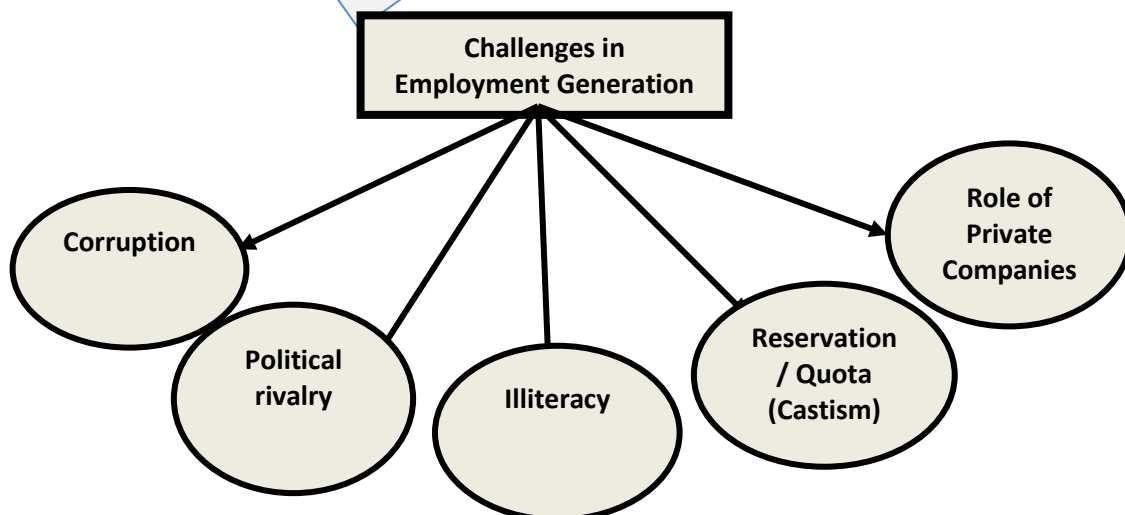
crore and 15 lakh tonnes of food grains (Revised), Rs.2,219 crore and 11.58 lakh metric tonnes of foodgrains had been released up to January 27, 2006. About 17.03 lakh persondays were generated up to December 2005.

**(F) Dpap, Ddp And Iwdp** Drought Prone Areas Programme (DPAP) was launched in 1973-74 to tackle the special problems faced by those areas constantly affected by severe drought conditions. Desert Development Programme (DDP) was launched in 1977-78 to mitigate the adverse effects of desertification. Integrated Wastelands Development Programme (IWDP) has been under implementation since 1989-90 for the development of wastelands/ degraded lands. The basis of implementation has been shifted from sectoral to watershed basis from April 1995. For 2005-06, Rs.353 crore, Rs.268 crore and Rs.485 crore have been allocated for DPAP, DDP and IWDP, respectively. So far in 2005-06 up to October, 2005, 3000 new projects covering 15 lakh ha., 2000 new projects covering 10 lakh ha. and 340 new projects covering 16 lakh ha. have been sanctioned under DPAP, DDP and IWDP, respectively.

**(G) Swarna Jayanti Shahari Rozgar Yojana (Sjsry)** In December 1997, the Urban Self-Employment Programme (USEP) and the Urban Wage Employment Programme (UWEP), which are the two special components of the SJSRY, substituted for various programmes operated earlier for urban poverty alleviation. The SJSRY is funded on a 75:25 basis between the Centre and the States. In 2003-04, the central allocation of Rs. 94.50 crore plus Rs. 10.50 crore for North- Eastern Region including Sikkim was fully utilized. Even 2004-05 saw the release of the entire budgetary allocation of Rs. 122.00 crore. In 2005-06, out of an allocation of Rs. 160.00 crore, Rs. 84.52 crore had been utilized until November 30, 2005.

**(H) Valmiki Ambedkar Awas Yojana (Vambay)** VAMBAY, launched in December 2001, facilitates the construction and up-gradation of dwelling units for the slum dwellers, and provides a healthy and enabling urban environment through community toilets under Nirmal Bharat Abhiyan, a component of the Scheme. The Central Government provides a subsidy of 50 per cent, with the balance provided by the State Government. Since its inception and up-to December, 31 2005, Rs. 866.16 crore had been released as Central subsidy for the construction/up gradation of 4,11,478 dwelling units and 64,247 toilet seats under the Scheme. For 2005-06, out of the tentative Central allocation of Rs. 249 crore, up to December 31, 2005, an amount of Rs.96.4 crore had been released covering 60,335 dwelling units and 381 toilet seats.

### Challenges in Employment Generation



- **Corruption:** Corruption in employment generation agencies as well as in government system, affect badly the employment possibilities, specially in rural areas. Although this factor can't be reduce automatically by a common man, but it can be reduce by implementing the transparency in the system and automation in the system such as schemes like *e-district*, *e-Governance*, *RTI etc.* There is a *huge gap between policy making (planning) and implementation phase* of the employment generation scheme.
- **Political rivalry :** Every government make new and better policy still every new scheme become fail due to political rivalry in political system. Every new Govt. either close the employment program launched by previous Govt. or manipulate the programs guidelines or sometimes stop the fund for the program, which makes it difficult for unemployed to get the job availability easily. This is a great factor influencing the employment programs.
- **Illiteracy :** Illiteracy is playing a vital role in unemployment specially in under-developed countries like India. People even now after 60 years of independence, unaware about the schemes the Govt. is running for the employment generation. This factor can be reduced by running awareness camp and programs parallel to the employment programs.
- **Reservation / Quota (Castism) :** India is a democratic country so here every Govt. provide the benefits like employment and other employment related benefits to his *caste* person.
- **Role of Private Companies :** Private companies play a vital role in the employment generation in any country, but in India private companies are not functioning properly because of Govt. policies specially State Govt. Companies are not investing according to his efficiency in any of the state, especially in *BIMARU States* (Bihar, Maharashtra, Rajasthan, Utter Pradesh) because the State Govt. is not making policies which can attract the private companies, even States like West Bengal creating problems to private players (TATA – Singoor Plant) which distract the private players from the States, ultimately affect the employment generation.

#### Opportunities in Employment Generation



- \* **Huge work force:** India is second largest country in the world in population after China, it means we have a ample of work force and if this work force can be utilized accordingly, India can be top of the world. This huge work force is attracting the developed countries for the hiring, outsourcing and for third party work. Only the Indian Govt. have to do to train this work force according to the demand of the technology and advancement of the third world countries.
- \* **Transparency in the system :** In India now Govt. understand that the people are now become technology savvy and they adopt the new technology very soon and efficiently, so Govt is implementing the *e-Governance* programs with every of the program through *RTI Act*.
- \* **Economical work force :** Indian work force is very economical if it compare with any of the European country. The average wage in India is about 100 Rs\*\* (2.00 \$ approx) where as in Europe it is about 10.00 €\*\* (700 Rs.) and in US it is about \$ 12.00\*\* (600 Rs) which mean Indian labour is ready to work on less price as compare to European and American market,



which attract the European and American player to enter in the Indian market for the economical work.

- \* **Liberalization in Exchange Policies** : The Govt has liberalized the exchange and regulation act which makes it easy to enter in the Indian market for investment upto 100% in many sectors. This is a indirect factor which will affect the employment factor in development point of view. Entry of new player like Wal-Mart will not only develop the infrastructure but also create job opportunities for the educated persons in large prospective, although it is a political issue.

## POVERTY IN INDIA

### What is Poverty

According to Oxford Dictionary of Sociology (1994), 'poverty is a state in which resources, usually material but sometimes cultural, are lacking'. It is generally determined by the standards that exist within a society. Its measurement differs from place to place and from time to time. This is why sociologists define it either in absolute or relative terms.

### Types of poverty

#### 1) Absolute poverty

- ❖ According to Oxford Dictionary of Sociology (1994), 'Absolute poverty refers to a state in which individual lack the resources necessary for subsistence.' The notion of 'poverty line' describes poverty in subsistence terms. This is why absolute poverty is also known as 'subsistence poverty'.
- ❖ In India, poverty line is drawn on the basis of per capita (adult) daily intake of 2,400 calories for the rural and 2,100 calories for the urban.

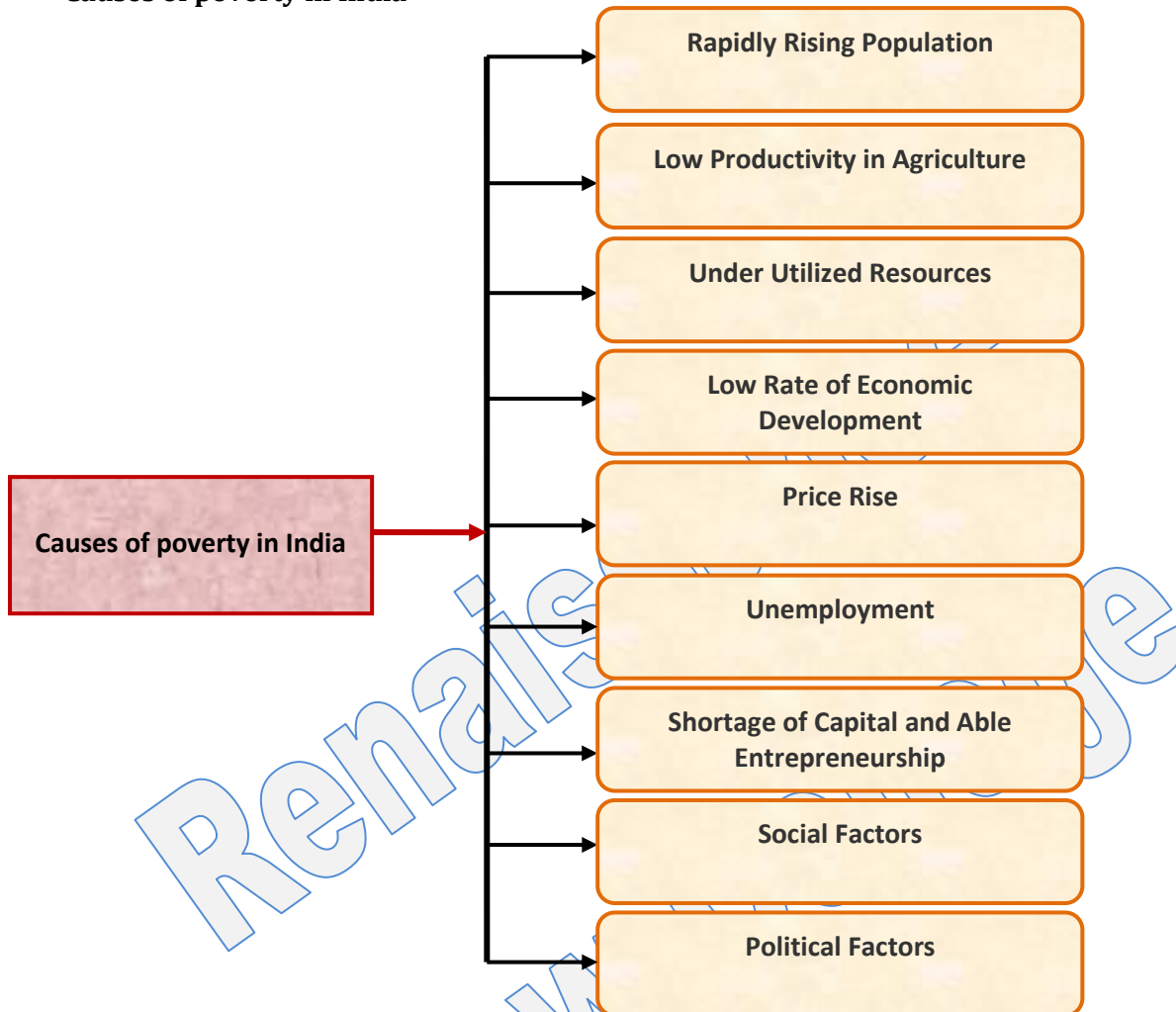
#### 2) Relative poverty

- \* According to Oxford Dictionary of Sociology (1994), 'Relative poverty refers to individuals or groups lack of resources when compared with that of other members of the society—in other words, their relative standard of living.
- \* The concept of relative poverty is used to measure the degree of poverty. Accordingly, people are poor because they are deprived of the opportunities, comforts and self-respect regarded as normal in the community to which they belong.

### Poverty in India

- 1) At present, 29.8% of the Indian population lives below the poverty line. In the category of poor falls the people whose daily income is less than 28.65 rupees (56 cents/35p) a day in cities and 22.42 rupees (44 cents/33p) a day in villages.
- 2) **Who comes in the category of the poorest class in India?** – Tribal people, Dalits and labour class including farm workers in villages and casual workers in cities are still very poor and make the poorest class in India.
- 3) **Where do the majority of poor live in India?** – 60% of the poor still reside in the states of Bihar, Jharkhand, Odisha, Madhya Pradesh, Chattisgarh, Uttar Pradesh and Uttarakhand. The reason for these states to be in the category of the poorest state is because 85% of tribal people live there. Also, most of these regions are either flood-prone or suffer from drought-like conditions. These conditions hamper agriculture to a great extent, on which the household income of these people depends.
- 4) India at present has a greater share of the poor around the world. Thirty years ago, India was home to one-fifth of world's poor but now it is a home to one-third of poor people. This means we now have more poor in India as compared to thirty years ago.
- 5) International poverty line stands at \$ 1.25 per day and in 2010, 32.7% of the total population in India was below this line. According to a 2011 poverty Development Goals Report, poverty in India is expected to drop by 22% in 2015.

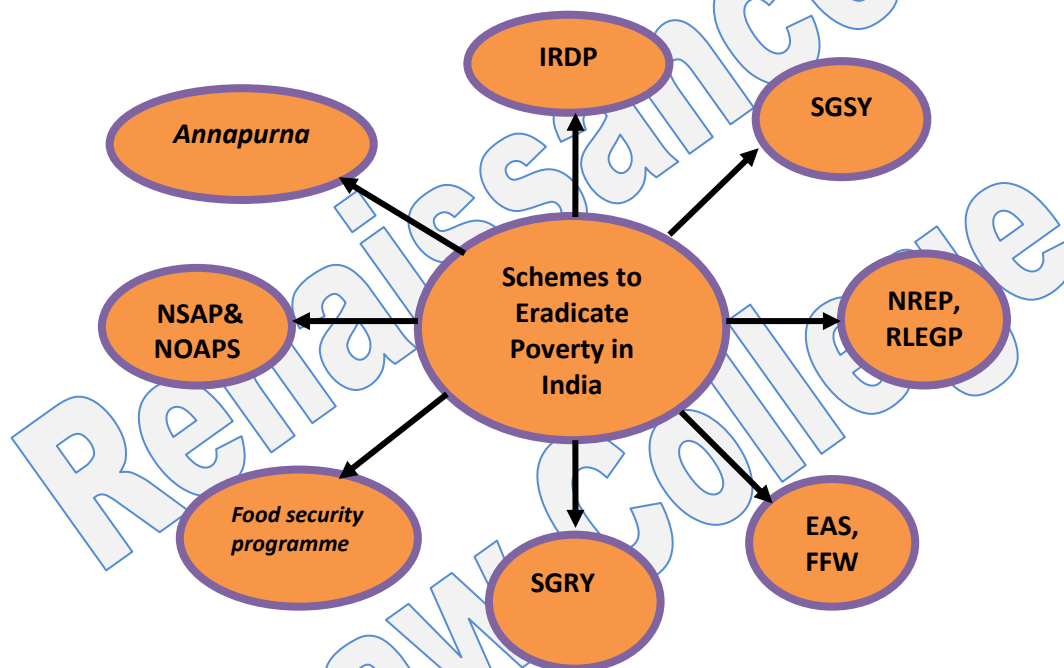
### Causes of poverty in India



- 1) **Rapidly Rising Population:** The population during the last 45 years has increased at the rate of 2.2% per annum. On average 17 million people are added every year to its population which raises the demand for consumption goods considerably.
- 2) **Low Productivity in Agriculture:** The level of productivity in agriculture is low due to subdivided and fragmented holdings, lack of capital, use of traditional methods of cultivation, illiteracy etc. This is the main cause of poverty in the country.
- 3) **Under Utilized Resources:** The existence of under employment and disguised unemployment of human resources and under utilization of resources has resulted in low production in agricultural sector. This brought a down fall in their standard of living.
- 4) **Low Rate of Economic Development:** The rate of economic development in India has been below the required level. Therefore, there persists a gap between level of availability and requirements of goods and services. The net result is poverty.
- 5) **Price Rise:** The continuous and steep price rise has added to the miseries of poor. It has benefited a few people in the society and the persons in lower income group find it difficult to get their minimum needs.
- 6) **Unemployment:** The continuously expanding army of unemployed is another cause of poverty. The job seeker is increasing in number at a higher rate than the expansion in employment opportunities.

- 7) **Shortage of Capital and Able Entrepreneurship:** Capital and able entrepreneurship have important role in accelerating the growth. But these are in short supply making it difficult to increase production significantly.
- 8) **Social Factors:** The social set up is still backward and is not conducive to faster development. Laws of inheritance, caste system, traditions and customs are putting hindrances in the way of faster development and have aggravated the problem of poverty.
- 9) **Political Factors:** The Britishers started lopsided development in India and reduced Indian economy to a colonial state. They exploited the natural resources to suit their interests and weaken the industrial base of Indian economy. In independent India, the development plans have been guided by political interests. Hence, the planning a failure to tackle the problems of poverty and unemployment.

### Schemes to Eradicate Poverty in India



#### 1 IRDP:

- ★ This programme was started in 1970s in rural areas of the country in the name of Integrated Rural Development Programme (IRDP) to increase the source of income of small farmers and landless laborers.
- ★ The beneficiaries were given subsidized credit, training, and infrastructure, so that they could find new sources of earning. In this scheme, agricultural labourers and small farmers received new skills to involve in vocations other than cultivating land. They included fishery, animal husbandry, and forestry. In the 1980s, this scheme was extended to schedule castes and tribes, women and rural artisans

#### 2 Swarnjayanti Gram Swarozgar Yojana (SGSY) :

- ★ Considering the shortfalls of the IRDP, the government replaced this programme with Swarnjayanti Gram Swarozgar Yojana (SGSY) in 1999.
- ★ Considering the non-viability of the enterprise of the poor individual and his/her poor credit worthiness, SGSY focused on groups to lend money and develop micro-enterprises. This scheme involves the organization of the poor into self-help groups or SHGs and are provided with credit, technology, infrastructure and training. The SHG may consist of 10 to 20 members.

- \* Banks are generally comfortable with the credit worthiness of the SHGs. Unlike the IRDP, SGSY is more an empowering process and it focused on mainstreaming the poor to join the economic development of the country.

### 3 (NREP), (RLEGP), JRY, JGSY

- \* Wage employment programmes were first started during the Sixth and Seventh Plan in the form of National Rural Employment Programme (NREP) and Rural Landless Employment Guarantee Programmes (RLEGP).
- \* These two programmes were later merged in 1989 into more well known *Jawahar Rozgar Yojana* or JRY. The JRY was supposed to produce employment for the unemployed and the underemployed and to improve the village infrastructure and assets.
- \* The JRY was revised and re-launched in April 1999 and was named as *Jawahar Gram Samridhi Yojana* or JGSY. The secondary objective of the JRY has become the main objective, i.e., creating economic assets and infrastructure for the village and the creation of employment is a by-product of the main objective.

### 4 EAS, FFW

- \* A special wage employment programme in the name of Employment Assurance Scheme or EAS was launched on October 2, 1993 for the drought prone, desert, tribal and hill area blocks in the country. It was further expanded to all the blocks in 1997-1998.
- \* The EAS is also meant for providing employment during lean season. While the scheme emphasized on creating economic and social assets in the village.
- \* The Food for Work Programme was started as part of EAS in 8 drought prone States in 2000-2001. Here part of the wage was provided in the form of food grains.

**5 SGRY: (Sampoorna Gramin Rozgar Yojana)** Considering the fragmented efforts of different wage employment programmes in the country, all these programmes were merged into one programme called **Sampoorna Gramin Rozgar Yojana** or SGRY in 2001. The three-fold objective of this programme is generation of employment for the rural poor, creation of community assets and infrastructure, and ensuring food and nutrition security for the rural poor.

### 6 Food security programme:

- \* Meeting the very basic need of access to food is a major challenge to the government in the post-economic reform era. Those who are below poverty line are faced with the problem of meeting this very basic need. Starvation and hunger have been reported in different parts of the country, even in economically advanced States like Maharashtra. There is malnutrition in all age groups, especially among children.
- \* The purchasing power of certain section of the society is so low that they cannot access food at the market price. They need the safety net of food subsidy. In this context, public distribution system or PDS assumes importance. In the post-economic reform era, the PDS became a very significant poverty alleviation programme of the government. The central government initiated a new PDS programme in June 1997 and called it targeted public distribution system or TPDS. Under this scheme, the States are to identify households below poverty line and provide them 10 kg of food grains at highly subsidized price and this amount was raised to 20 kg in April 2000.

### 7 NSAP& NOAPS.

- \* National Social Assistance Programme or NSAP in August 1995.
- \* Under NSAP, there are three schemes. The first one is the National Old Age Pension Scheme or **NOAPS**. A pension amount of Rs. 75 per month is given to those who are above the age of 65 yr

and are destitute without any regular source of income or support from any family members or relatives.

### 8 *Annapurna*

- \* In addition to NOAP, the government has launched another programme called *Annapurna* in April 2000 for those elderly who are eligible for NOAPS but did not receive it due to budgetary constraints. They are given 10 kilograms of food grains per month free of cost. This programme did not take root in many States. As a result, only Rs. 174.4 million were utilized out of the allocated fund of Rs. 990.5 million in the year 2000-2001

### **Urban poverty alleviation programme**

- \* (*Nehru Rozgar Yojana*) Due to acute poverty in rural areas, the poor tend to migrate to cities (push factor) in search of work. Since they do not have any employable skills to get employment in the formal sector of the cities, they end up doing odd jobs in the informal sector of the city. Since normal housing is not affordable to them, they settle in lands that are not developed for housing, thus forming slums in cities. Employment programmes in rural areas is the *Nehru Rozgar Yojana* in urban areas.
- \* The second scheme under the *Nehru Rozgar Yojana* is the Scheme of Urban Wage Employment or SUWE. Under SUWE, the labour of the urban poor is utilized to create socially and economically useful public assets. This scheme is applicable to small towns with a population of less than 100,000.
- \* The third component is the Scheme of Housing and Shelter Upgradation or SHASU. Under SHASU, the urban poor is given a loan not exceeding Rs. 9,950 and a subsidy of Rs. 1,000. The beneficiary may opt for additional loan of Rs. 19,500 from HUDCO.
- \* **UBSP** : The largest urban poverty alleviation programme currently operating in the country is the Urban Basic Services for Poor or UBSP. It is based on the principle of community development involving the community, especially women to improve their communities and
- \* Environment. This programme is implemented in 25 States and 6 union territories covering 296 cities.



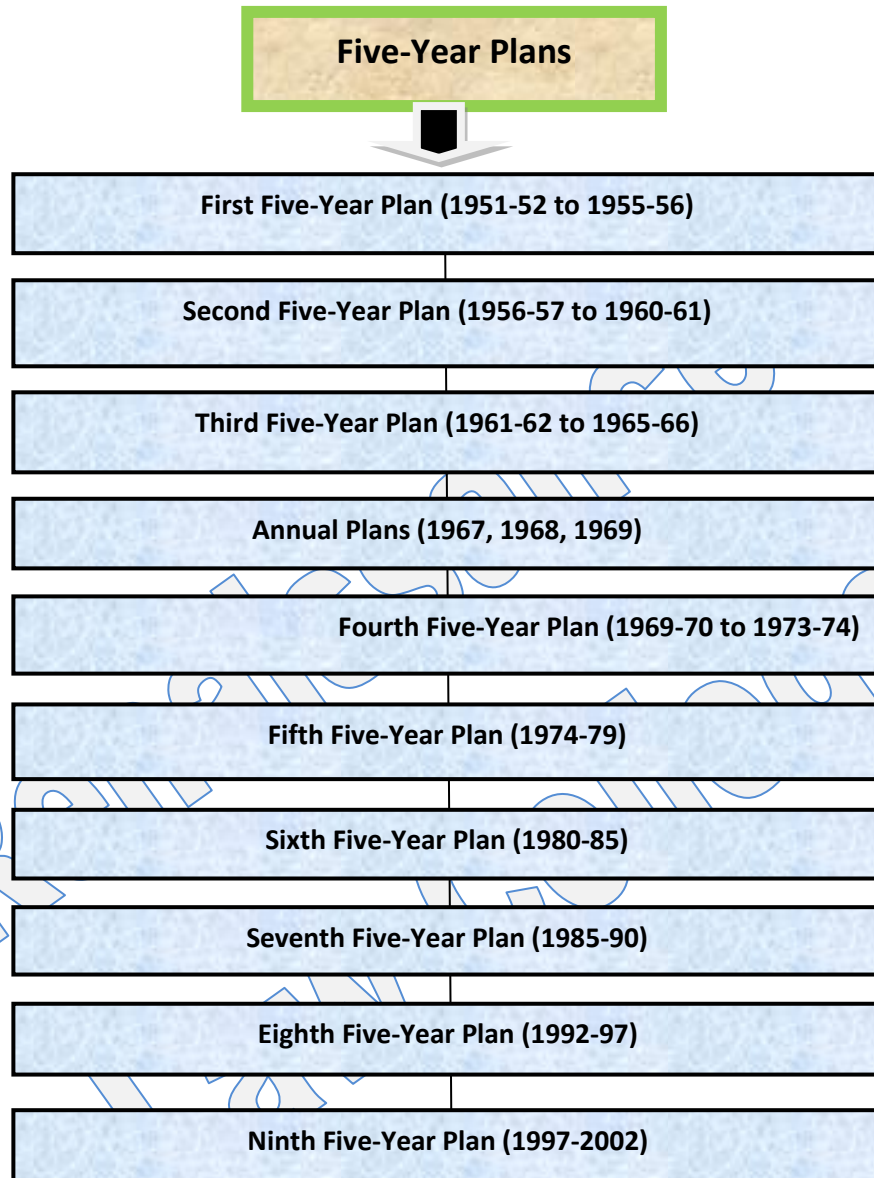
**UNIT 2**  
**INDIAN ECONOMIC DEVELOPMENT**

**TOPIC 1- PLANNING PROCESS**

**Introduction to planning process:**

- 1) After the adoption of a new constitution, the government of India set up the Planning Commission in March 1950 to assess the country's material, capital and human resources and to formulate a plan for the most effective and balanced utilization. The first Prime Minister, Pt. Jawaharlal Nehru was also its first chairman. The Finance Minister and the Minister for planning were its essential members amongst other ministers in different capacities linked to economic development.
- 2) Some of the objectives outlined in these plans were maximization of national income, rapid industrialization, providing full employment and most importantly achieving self-sufficiency. The central purpose identified with the process of development was to raise the standard of living and opening out more opportunities to people.
- 3) Planning in India needed proper channeling of resources into different developmental activities in accordance with accepted national priorities. While short-term developmental objectives have varied from plan to plan, the planning process was in some ways inspired by certain long-term goals. These goals are:
  - (a) **High growth rate** with a view to improve the standard of living. Due to the oppressive policies of the British, the country in the colonial period witnessed a retarded development. The standard of living of the people was very low. The general objectives of all the Five year plans have been to raise the standard of living and achieve a much higher growth rate of national income.
  - (b) **Achieving social justice.** As per the Directive Principles of State Policy laid down in the Constitution, achievement of justice- social, economic and political were proclaimed as a national commitment. The Five Year Plans being an inherent part of state policy, social justice figured as the most important objective in them.
  - (c) **Economic self-reliance.** Political independence is never complete without economic independence. Self-reliance in this regard came as a natural objective of the successive Five Year Plans. The emphasis was on achieving financial self-reliance. Its essence lay in the fact that the economy should be able to finance its continued growth at a satisfactory rate largely from domestic resources. Foreign and external help should be kept at minimum level.
- 4) However, a major policy change occurred in this regard from 1991 when the Government at the Center liberalized the economy and went all the way to attract foreign investments in order to modernize the economy faster.
- 5) The strategy for development included a comprehensive planning for all round development; a mixed economy approach to keep up the socialistic pattern of development; achieve a balanced development that would develop both agriculture and industry; provide maximum employment; cater to the development of backward areas; to uplift the backward classes and achieve overall social welfare.

**Five-Year Plans:**



**First Five-Year Plan (1951-52 to 1955-56):**

The first five-year plan had a two-fold objective:

1. To correct the disequilibrium in the economy caused by the Second World War and the partition of the country.
2. To initiate simultaneously a process of all round development which would ensure a rise in national income and a steady improvement in the living standards of the people.

The plan accorded the highest priority to agriculture, including irrigation and power projects. The plan also aimed at increasing the rate of investment from 5% to 7% of the national income. The growth rate achieved in this plan was 3.6%.

**Second Five-Year Plan (1956-57 to 1960-61):**

In December 1954, the Parliament declared the objective of the Second Plan to achieve the Socialistic Pattern of Society. The basic aim under this was to attain greater equality of income and wealth and not private profit.

It promoted a pattern of development that would lead to the establishment of a socialistic society in India. The benefits of the plan were directed towards the betterment of the less privileged than the progressive sections. The main objectives of the second plan were:

- a. An increase of 25% in the national income.
- b. Rapid industrialization with special emphasis on the development of basic and heavy industries.
- c. Large expansion of employment opportunities.
- d. Reduction of the inequalities in income and wealth and a more even distribution of economic power.

The Plan aimed at increasing the rate of investment from 7% to 11 % of the national income by 1960-61. This plan increased the scope of industrialization by increasing the production of iron and steel, heavy chemicals, development of heavy engineering and machine building industries.

For the first time long-term economic policy was formulated and loans were taken from foreign countries. The growth rate achieved was 4%. Rapid industrialization and diversification of the economy were the main course of development. The development of basic industries and allocation of resources among different sectors were also taken carefully.

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

The third Five Year Plan aimed at securing a marked advance towards self-sustaining growth. Its objectives were:

- (a) Increase in the national income of over 5% per annum and at the same time ensure a pattern of investment that would sustain this rate of growth during subsequent plan periods.
- (b) Achieve self-sufficiency in food grains and increase agricultural production to meet the requirements of the industry and exports.
- (c) Expand the basic industries like steel, chemicals, fuel and power and to establish machine building ability so that requirement of further industrialization could be met within a period of ten years and that too from the country's own resources.
- (d) Utilize fully the manpower resources of the country and ensure a substantial expansion in employment opportunities.
- (e) Bring down disparities of income and wealth and get a more equitable distribution of economic power.

The national income in this plan was to increase by about 30% by 1965-66 and per capita income by about 17% during the period. The growth rate stipulated at 2.2%. The Programmes of the second plan were carried over in the third plan too. The development of basic industries remained a fundamental concern to growth.

**Annual Plans (1967, 1968, 1969):**

The situation created by the Indo-Pak conflict, two successive years of severe drought, 1965-66 and 1966-67, devaluation of the currency in 1966, general rise in prices and erosion of resources available for plan purpose delayed the finalization of the fourth five year plan.

Instead three annual plans were formulated within the framework of the draft outline of the fourth plan. The main aim of this plan was to restore normalcy in the economy. The emphasis of these plans was to adopt irrigation projects along with the use of high yielding variety crops in the agricultural sector. In the industrial sector the stress was on the utilization of the existing capacity and on consumer goods industry.

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

The Fourth plan aimed at raising the standard of living of the people through programmes that would promote social justice and equality at the same time. The concentration of the plan was the welfare of the weaker sections of the society especially through employment and education. The rate of growth in national income was 3.3% per annum and the per capita income was 1.2% per annum. The performance in industry as well as agriculture was not satisfactory.

**Fifth Five-Year Plan (1974-79):**

The following objectives were stated under the fifth five-year plan:

- a. Removal of poverty.
- b. Achievement of economic self-reliance.

To achieve these objectives the procedure thought was to get a 5.5% overall rate of growth; expansion of productive employment; extended programmes of social welfare; emphasis on agriculture and basic industry with special attention to production for mass consumption; export promotion and substitution of imports.

The Fifth plan that was to be completed in March 1979 was completed earlier; by March 1978. This was the golden period for rural development as the largest funds were diversified for rural development. The rate of growth achieved was 5.2%.

**Sixth Five-Year Plan (1980-85):**

This plan accelerated the work for the removal of poverty, generation of gainful employment and technological and economic self-reliance. The plan targeted a growth rate of 5.2% and achieved it. It was successful in achieving the required industrial development and agricultural growth. It also achieved aims of social justice.

The plan undertook the development of underdeveloped areas of the country. It also concentrated on the refinement of technology. It was the first perspective plan of the country slated for a long term of fifteen years. It also saw a rapid growth in the service sector. About 94% of the cost of investments was met from the domestic resources projecting the self-reliance of the country.

**Seventh Five-Year Plan (1985-90):**

The sixth five-year plan provided the background for the next plan. The guiding principles of the plan continued to be growth, equity and social justice, self-reliance, improved efficiency and productivity. The policies to accelerate growth in food grains production, increase employment opportunities and raise productivity were pursued in this plan.

The rate of growth of 5.6% was kept for this plan. The strategy in the seventh plan to generate productive employment was to increase cropping intensities and extension of agriculture through use of new technologies. Emphasis was also given on various rural schemes for development.

**Eighth Five-Year Plan (1992-97):**

**The Eighth plan had the following objectives:**

- a. Generating adequate employment to achieve near full employment level by the turn of the century.
- b. Containing population growth through active scheme of incentives.
- c. Eradication of illiteracy in the age group of 15 to 35 years.
- d. Provision for health and availability of safe drinking water especially in villages.
- e. Self-sufficiency in food and generation of agricultural surplus.
- f. Strengthening the infrastructure in order to support growth process on a sustained basis.

The strategy for achieving the above mentioned goals was to be a mixture of new investments and correction of imbalances in different sectors and increasing investment efficiency. This plan also aimed at a 5.6% growth per annum. Much of the investments was to be met by capital inflow from abroad in the form of loans.

**Ninth Five-Year Plan (1997-2002):**

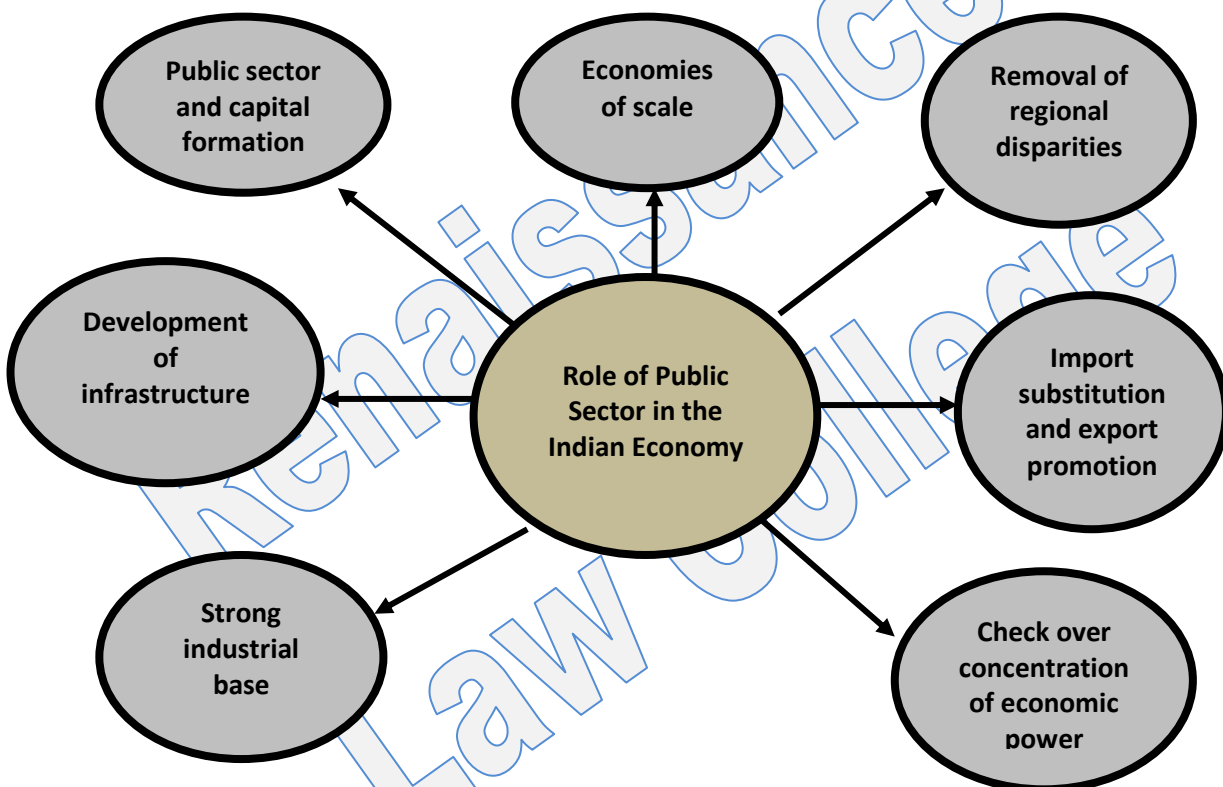
The Ninth plan proposed to achieve a 7% growth rate during the plan period. It introduced fiscal discipline and aimed to control rise in prices through controlling money supply. It aimed at resource mobilization and attract foreign direct investment. The thrust of the plan was to achieve agricultural growth. The proposition was to broaden the direct tax base for raising resources at the center. Some of the objectives outlined in this plan were:



- a. Priority to agriculture and rural development and generate productive employment and eradication of poverty.
- b. Accelerating the growth rate of the economy and keeping the prices stable.
- c. Containing the growth rate of population.
- d. Promoting and developing people's participatory institutions like the Panchayati Raj and Cooperatives.
- e. Strengthening efforts of building self-reliance.

## TOPIC2- ROLE OF PUBLIC SECTOR IN THE INDIAN ECONOMY

Public sector in India has been criticized vehemently by a number of supporters of the private sector who have chosen to shut their eyes towards the achievements of the public sector. Following description should be sufficient to convince one that public sector has played a definite positive role in the economy.



**1. Public sector and capital formation:** The role of public sector in collecting savings and investing them during the planning era has been very important. During the first and second plans of the total investment, 54 per cent was in the public sector and the remaining in the private sector. The share of public sector rose to 60 percent in the third plan but fell thereafter. However, even then it was as high as 45.7 per cent in the seventh plan. With increasing trends of liberalization in 1990s, the share of public sector in total investment fell drastically to 34.3 per cent in the eighth plan (i.e., only one-third) and further to 29.5 per cent in the Ninth Plan. This reflects the increasing importance that is now being accorded to the private sector. The nationalized banks, State Bank of India, Industrial Development Bank of India, Industrial Finance Corporation of India, State Financial Corporations, LIC, UTI etc., have played an important role in collecting savings and mobilization of resources.

**2. Development of infrastructure:** The primary condition of economic development in any underdeveloped country is that the infrastructure should develop at a rapid pace. Without a sufficient expansion of irrigation facilities and power and energy, one cannot even conceive of agricultural



development. In the same way without an adequate development of transportation and communication facilities, fuel and energy, and basic and heavy industries, the process of industrialization cannot be sustained. India had inherited an undeveloped basic infrastructure from the colonial period. After Independence, the private sector neither showed any inclination to develop it nor did it have any resources to make this possible. It was comparatively weak both financially and technically, and was incapable of establishing a heavy industry immediately. These factors made the State's participation in industrialization essential since only the government could enforce a large-scale mobilization of capital, the co-ordination of industrial construction, and training of technicians. The government has not only improved the road, rail, air and sea transport system, it has also expanded them manifold. Thus the public sector has enabled the economy to develop a strong infrastructure for the future economic growth. The private sector also has benefited immensely from these investments undertaken by the public sector.

**3. Strong industrial base:** The share of the industrial sector (comprising manufacturing, construction, electricity, gas and water supply) in Gross Domestic Product at factor cost has increased slowly but steadily during the period of planning. The share of the industrial sector in GDP at factor cost rose from 15.1 per cent in 1950-51 to 24.0 per cent in 1980-81 and further to 25.8 per cent in 2008-09 (at 1999-2000 prices). This shows the increasing importance of the industrial sector in the Indian economy. Not only this, the industrial base of the Indian economy is now much stronger than what it was in 1950-51. There has been significant growth in the defense industries and industries of strategic importance. The government has strengthened the industrial base considerably by placing due emphasis on the setting up of industries in the following fields — iron and steel, heavy engineering, coal, heavy electrical machinery, petroleum and natural gas, chemicals and drugs, fertilizers, etc. Because of their low profitability potential in the short run, these industries do not find favour with the private sector. However, unless these industries are set up, the consumer goods industries cannot progress at a sufficiently rapid pace. Therefore, the production of consumer goods industries in the private sector is also likely to suffer if the State does not invest in heavy and basic industries.

**4. Economies of scale:** In the case of those industries where for technological reasons, the plants have to be large requiring huge investments, setting up of these industries in the public sector can prevent the concentration of economic; and industrial power in private hands. It is a known fact that; in the presence of significant economies of scale, the free market does not produce the best results. Accordingly, considerations of economic efficiency require some form of government regulation or public ownership. Even in the U.S.A. firms in electric power, natural gas, telephone and some other industries are being regulated by Federal and State regulatory commissions. Countries like France and the United Kingdom have explicitly preferred public ownership in these fields.

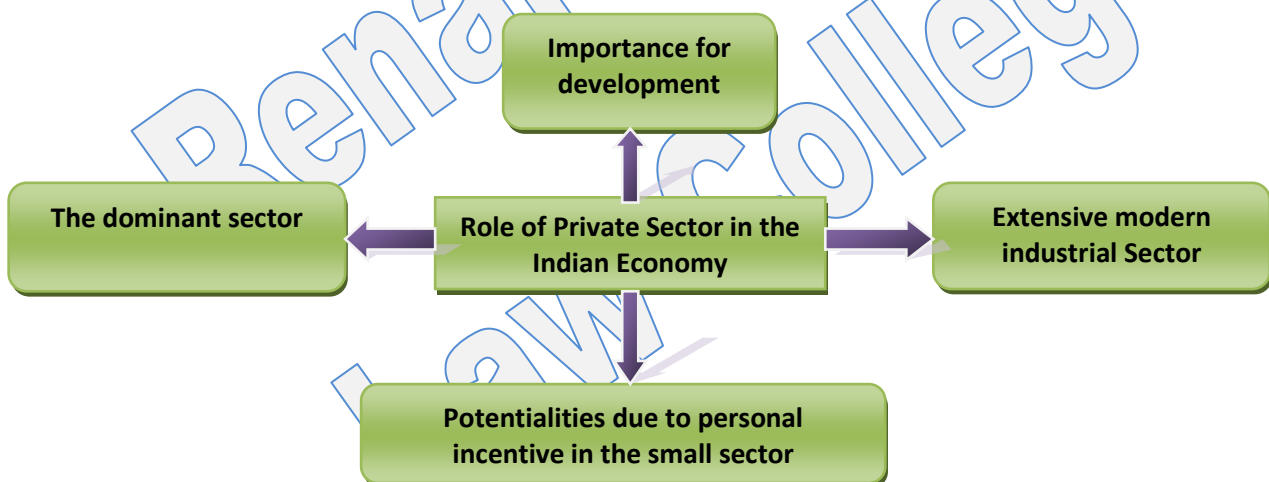
**5. Removal of regional disparities:** The government in India has sought to use its power of setting up of industries as a means of removing regional disparities in industrial development; In the pre-Independence period, most of the industrial progress of the country was limited in and around the port towns of Mumbai, Kolkata and Chennai. Other parts of the country lagged far behind. After the initiation of the planning process in the country in 1951, the government paid particular attention to the problem and set up industries in a number of areas neglected by the private sector. Thus, a major proportion of public sector investment was directed towards backward States. All the four major steel plants in the public sector—Bhilai Steel plant, Rourkela Steel Plant, Durgapur Steel Plant and Bokaro steel Plant were set up in the backward States. It was believed that the setting up of large-scale public sector projects in the backward areas would unleash a propulsive mechanism

**6. Import substitution and export promotion:** the foreign exchange problem often emerges as a serious constraint on the programmes of industrialization in a developing economy. This constraint appeared in a rather strong way in India during the Second Plan and the subsequent plans. Because of these considerations, all such industries that help in import substitution are of crucial importance for the

economy. Bharat Heavy Electricals Limited, Bharat electronics Ltd., Hindustan Antibiotics Ltd., Indian Oil Corporation, Oil and Natural Gas Commission, etc., in the public sector are of special importance from this point of view. Several public sector enterprises have also played an important role in expanding the exports of the country. Specific reference of Hindustan Steel Limited, Hindustan Machine Tools Limited, Bharat Electronics Ltd., State Trading Corporation and Metals and Minerals Trading Corporation can be made in this context.

**7. Check over concentration of economic power:** In a capitalist economy where the public sector is practically non-existent or is of a very small size, economic power gets increasingly concentrated in a few hands and inequalities of income and wealth increase. During the four and a half decades of planning in this country, it has been said time and again that the expansion of public sector will help in putting a brake on the tendency towards concentration of wealth and economic power in the private sector. Public sector can help in reducing inequalities in the economy in a number of ways. For instance (i) profits of the public sector can be used directly by the government on the welfare programmes of the poorer sections of community; (ii) public sector can adopt a discriminatory policy by supplying materials to small industrialists at low prices and big industrialists at high prices; (ii) public sector can give better wages to the lower staff as compared to the private sector and can also implement programmes of labour welfare, construction of colonies and townships for laborers, slum clearance, etc.; and (iv) public sector can orient production machinery towards the production of mass consumption goods.

### TOPIC3- ROLE OF PRIVATE SECTOR IN THE INDIAN ECONOMY



- 1) **The dominant sector:** Despite the rapid progress of the public sector in the period of planning, private sector is the dominant sector in the Indian economy as would be clear from a glance at Table 32.1. Since government data on the industrial sector are available with some time-lag, the latest data are for the year 2005-06. The number of private sector companies in 2005-06 was 1, 21,113 out of 1,40,161 total companies. Thus as many as 86.4 per cent of the total companies were in the private sector, the share of public sector being only 9.4 per cent. However, in terms of fixed capital, gross output and value added, private sector's share was much lower. For instance, its share in fixed capital was only 28.1 per cent in 2005-06. Its share in gross output and value added was only 38.9 per cent and 33.8 per cent respectively in that year. In terms of employment, private sector's share was greater in 2005-06. It employed 61.5 per cent of workers as against 34.1 per cent employed by the public sector.
- 2) **Importance for development:** In western countries, private entrepreneurs have played an important role in economic development so much so that Schumpeter has characterized them as the initiator and moving force behind the industrialization process. The private entrepreneur is guided by the profit motive. He is responsible for the introduction of new commodities, new techniques of production,

assembling the necessary plant and equipment, labour force and management and organizing them into a going concern. The private entrepreneur acts as an innovator who revolutionizes the entire method of production. Such activities help the process of industrialization and economic development. It was because of this reason that the industrial policy resolutions of 1948 and 1956 of the government gave immense opportunities to the private sector to expand its activities. In the new liberalized scenario that has emerged after the announcement of the new industrial policy in 1991, private sector has been assigned the dominant role in industrial development.

- 3) **Extensive modern industrial Sector:** A number of modern industries have been set up in the private sector. Important consumer goods industries were set up in the pre-Independence period itself. Particular mention in this regard can be made of the cotton textile industry, sugar industry, paper industry and edible oil industry. These industries were set up in response to the opportunities offered by the market forces. They were highly suitable for private sector since they ensured early returns and required less capital for establishment. Though the engineering industries did not make an appearance in the pre-Independence period yet a start was made by Tata in the field of iron and steel industry at Jamshedpur. After Independence, a number of consumer goods industries were set up in the private sector. Today India is practically self reliant in its requirements for consumer goods. According to the 1956 resolution, "industries producing intermediate goods and machines can be set up in the private sector." As a consequence, chemical industries like paints, varnishes, plastics etc. and industries manufacturing machine tools, machinery and plants, ferrous and non-ferrous metals, rubber, paper, etc. have been set up in the private sector.
- 4) **Potentialities due to personal incentive in the small sector:** Small and cottage industries have an important role to play in the industrial field. These industries employ labour intensive techniques and are, accordingly, important from the point of view of providing employment opportunities. In India, all small and cottage industries are in the private sector. Personal initiative plays a decisive role in small-scale industries. With the help of a small capital, the small entrepreneur uses his resources efficiently to earn maximum profit. Such management is not available to public sector enterprises.

#### Recent Trends in Private Participation:



#### 1). Growth in Telecom Sector

As of the figures of 2001-06, there has been an incredible increase in the investment in the telecommunication sector in India and as a result there has been immense growth in the telecom industry. 64% of the investment in this sector in South Asia has been in this sector. Various private telecom companies as Airtel, Reliance Communications, Tata Indicom etc have been the major investors in this field. The subscriber base has increased as a result which is reflected in their figures:

- ❖ Bharti Airtel -3,280,658
- ❖ Reliance Communications 1,232,060
- ❖ Tata Teleservices 1, 289, 17

### **2). Growth in Energy and Water Sectors**

This sector also has attracted a large investment from the private industries. Figures as of 2001-06 registered 17% investment in the sector. However in the water sector there has not been any major investment due to political issues, weak authority etc. In India, the power distribution has been privatized in several cities as Delhi and states like Orissa. The western state of Maharashtra is also keen on having larger investment from the private sector in the power division.

### **3). Growth in Transport Sector**

This sector has also become an important area of investment by the private enterprises. As of figures of the year 2006, there has been an investment of 34% alone in the transport sector. The driving force behind this success has been India's initiatives and policies encouraging partnerships of the private and the public sectors in transport.

### **4). Private Sector and Public Sector in India**

As of the last decade, the growth and investment in the private sector has well surpassed the growth in the public sector. Figures suggest that the share of the private sector in the net sales of manufacturing and services industry augmented from 48.83% in 2001-01 to 68.55% in 2009-10. Subsequently the share of the public sector reached to 31.45% from a higher percentage of 51.17%. The shares of private sector in the net profit in the non-agricultural economy rose to 63.86% from 39.17%. The share of the public sector subsequently declined to 36.14% from 60.83%.

This increase in the private sector's share is largely due to the higher foreign direct investment over the last decade. Over the last decade or so, with the liberalisation of the economic policies, India has been able to achieve higher investment from the private sector. For instance due to modifications and changes in the economic policies the transport and telecommunication industry witnesses a higher percentage of growth and investment in the private sector.

## **TOPIC 4- ROLE OF JOINT SECTOR IN THE INDIAN ECONOMY**

### **Introduction to Joint sector**

1). The joint sector is an extension of the concept of mixed economy. The Industrial Policy Resolution 1956, sowed the seeds of the joint sector by advocating Government participation in the equity capital of private sector enterprises to promote socially determined pattern of industrial growth.

2). Simply stated, the joint sector is a form of partnership between the public sector and the private sector. In a memorandum submitted to the Government of India, J.R.D. Tata observed that 'a joint sector enterprise is intended to form a partnership between the private sector and the government in which the government participation of capital will not be less than 26 per cent, the day-to-day management will normally be in the hands of the private sector partners, and control and supervision will be exercised by a board of directors on which governments, special financial institutions such as IDBI, IFCI, and other institutions like LIC and UTI and State financial and Industrial development corporations. Private sector consists of both Indian and foreign investing public and business houses.

3). The Industrial Licensing Policy Inquiry (Dutt) Committee, 1969 recommended creation of joint sector to curb private monopolies and concentration of economic power in a few hands. The committee in its report used three different concepts of joint sector:

1. "Existing private enterprises belonging to large Industrial houses should be brought under the joint sector by public financial institutions converting their loans into equity.

2. The joint sector would include those industrial units in which both public and private investment had already taken place and..... here the State has already been taking an active part in direction and control.



3. Large sized Industrial units in Schedule B & C categories necessitated on account of technical and economic advantages of large scale, should necessarily be in the joint sector to prevent concentration of economic power. In this case, the joint sector should be treated as belonging to the public sector. Dutt Committee's definition is tilted in favor of the public sector, while Tate's definition was heavily oriented towards the private sector.

**Joint sector has the following merits:**

1. The private enterprise has accumulated considerable amount of managerial, organisational and technological expertise but is lacking in sufficient financial resources. On the other hand, the public sector in spite of its vast financial resources has shown disappointing performance. Through the joint sector formula, the resources of the two sectors can be combined.

2. Joint sector enterprises would enjoy more operational autonomy and flexibility within the framework of the socio-economic policies of the State.

3. Joint sector is a useful weapon to curb monopoly and concentration of economic power in the country. It is a via media between outright nationalization and free enterprise. The idea of joint sector is appropriate to India's mixed economy wherein growth and social justice are to be aimed at simultaneously.

However, joint sector can succeed only when there is complete understanding, faith and co-operation between private and public sector partners. A suitable system of management for the joint sector must be evolved. The joint sector management should have freedom necessary to run the enterprises on business principles. At the same time public control must be maintained in the form of Government representatives on the board of directors. If properly managed, joint sector can be a viable alternative to both State capitalism and private capitalism.

**TOPIC 5: ROLE OF LARGE, MEDIUM & SMALL SCALE INDUSTRIES IN INDIA**

**Introduction :** Parliament has passed the Micro Small and Medium Enterprises Act in 2006. The Act defined the MSME enterprises engaged in manufacturing as-

- i. Micro enterprises:** the investment in plant and machinery does not exceed twenty-five lakh rupees
- ii. Small enterprise:** the investment in plant and machinery is more than twenty-five lakh rupees but does not exceed five crore rupees
- iii. Medium enterprise:** the investment in plant and machinery is more than five crore rupees but does not exceed ten crore rupees

In the case of the enterprises engaged in providing or rendering of services, MSMEs are defined as-

- i. Micro enterprise:** the investment in equipment does not exceed ten lakh rupees
- ii. Small enterprise:** the investment in equipment is more than ten lakh rupees but does not exceed two crore rupees
- iii. Medium enterprise:** the investment in equipment is more than two crore rupees but does not exceed five crore rupees.

**Advantages of MSME**

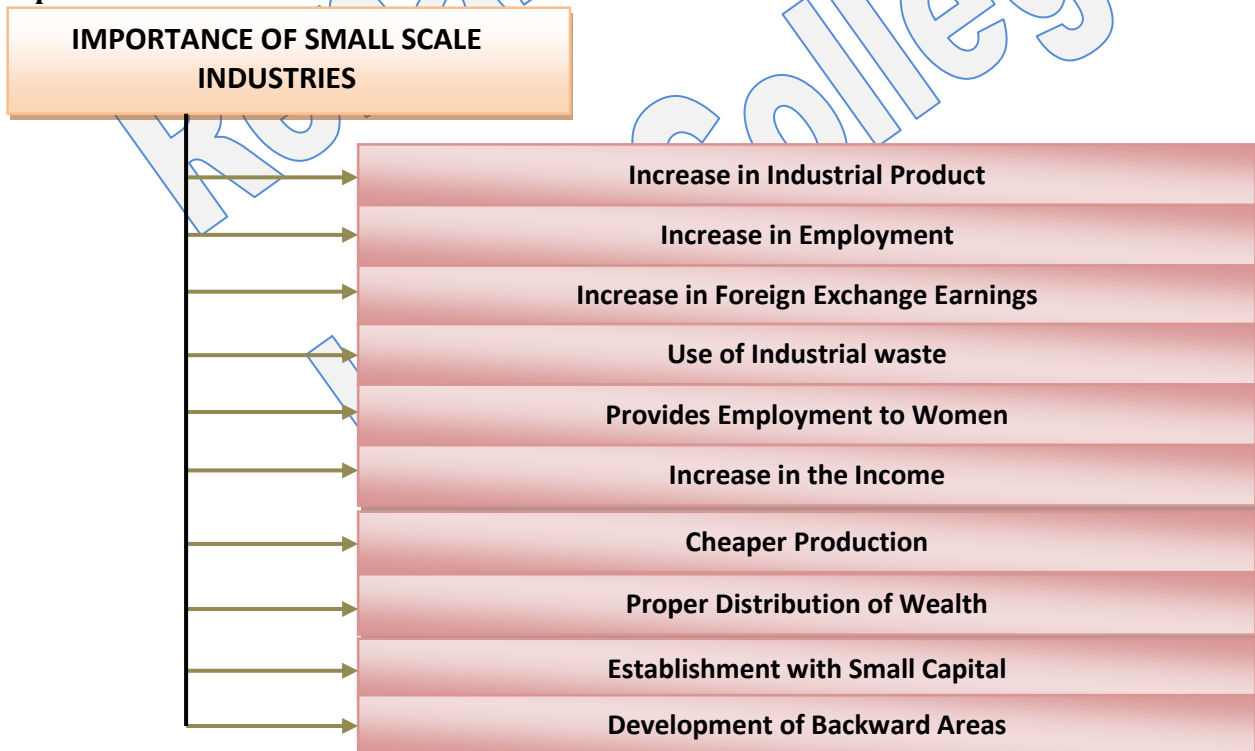
The important advantages of MSMEs in India which made them more relevant for the country's development are as follows:

- 1) Small-scale industries are fairly labour-intensive. They provide an economic solution by creating employment opportunities in urban and rural areas at a relatively low cost of capital investment.



- 2) Small-scale industries are flexible in their operation. They adopt quickly to various factors that play a large part in daily management. Their flexibility makes them best suited to constantly changing environment.
- 3) A small-scale unit is generally a one-man show. It is mostly set up by individuals. Even some small units are run by partnership firm or company; the activities are mainly carried out by one of the partners or directors. Therefore, they provide an outlet for expression of the entrepreneurial spirit. As they are their own boss, the decision making process is fast and at times more innovative.
- 4) Small-scale industries use indigenous raw materials and promote intermediate and capital goods. They contribute to faster and balanced economic growth in a transitional economy through decentralization and dispersal of industries in the local areas.
- 5) Small-scale industries generally restrict their operation to local areas in order to meet the local and regional demands of the people. They cannot enlarge their business activities due to limited resources.
- 6) Gestation period is the period after which the return on investment starts. It is the time period between setting the units and commencement of production. Small-scale industries usually have a lesser gestation period than large industries. This helps the entrepreneur to earn after a short period of time. Capital is blocked for a longer period.
- 7) The educational level of the employees of small industries is normally low or moderate. There is little need of specialized knowledge and skill to operate and manage the SMEs.

#### Importance of Small scale Industries



There is a shortage of capital and technical skill in Indian subcontinent. It is not possible to establish the heavy industries. While it is very easy to increase the number of small scale industries. The examples of Japan, Hong Kong and Taiwan are before us. Following are the main advantages of small scale industry in India:

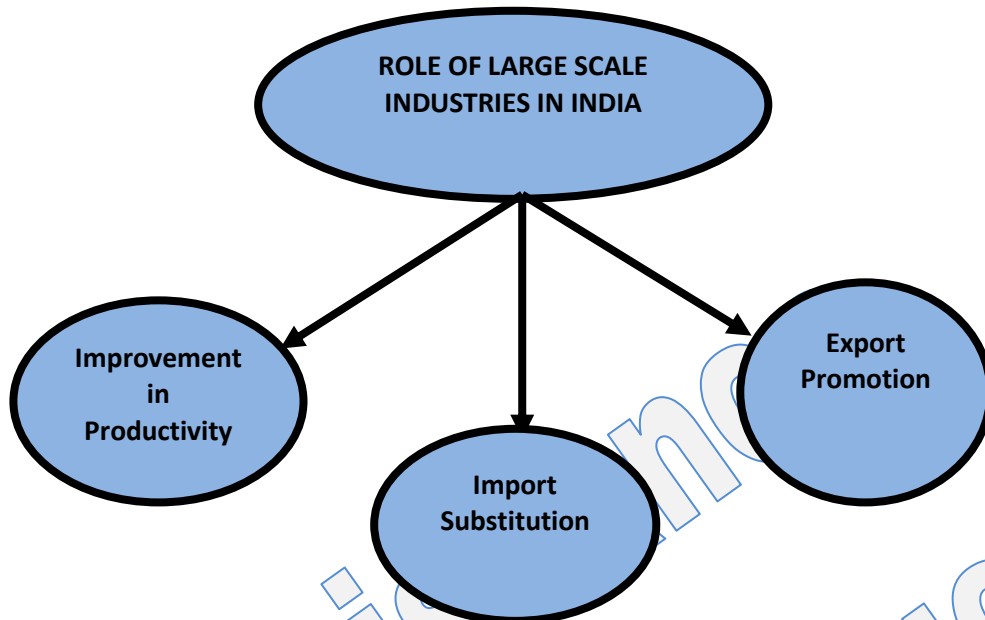
- 1) **Increase in Industrial Product:** There is a shortage of manufactured goods in our area. We spend a lot of foreign exchange on the import of these goods every year. So we should increase the small scale and cottage industry to remove the shortage of these goods.
- 2) **Increase in Employment:** The rate of unemployment is increasing day by day. To control unemployment it is necessary that we should increase the small scale industries because these are labour intensive. Our farmer can also easily work in small scale industry. It is not possible to provide Govt. jobs to all the unemployed people. It may also increase the self employment.
- 3) **Increase in Foreign Exchange Earnings:** The various kinds of goods like carpets and sports sold in the international market. We earn a lot of foreign exchange by exporting these goods.
- 4) **Use of Industrial waste:** The waste of large scale industries like cotton and steel can be used by the small scale industry. In this way we can save a lot of capital.
- 5) **Provides Employment to Women:** Our women is engaged in the cottage and small scale industry and increasing the production. Because in our society women cannot work with other men in the factories. We should increase the number of cottage industries to make the female sector a real asset of the nation.
- 6) **Increase in the Income:** Increase in the production of goods on small scale increase the income of the people. The rise in income improves the standard of living. In rural areas there is great need of small scale industry.
- 7) **Cheaper Production:** The small scale industry is labour intensive while labour is cheap in subcontinental, so the production of small scale industry is cheaper. Due to low prices people purchase more goods and market expands.
- 8) **Proper Distribution of Wealth:** The small scale industry increases the income of the people and reduces the gap between rich and poor. We can reduce the poverty by expanding the small scale industry.
- 9) **Establishment with Small Capital:** We can establish these industries with small capital. In subcontinental most of the people are poor, so they can start the production with small capital.
- 10) **Development of Backward Areas:** We can develop backward areas by establishing the small scale industry in these areas. It will remove poverty from backward areas.

**Conclusion:** Because of the aforesaid features, SMEs are supposed to be instrumental in the initiating the grass root development and promoting the development with equality. But there are many challenges which are obstructing the full fledged growth of the SME sector.

**Major challenges faced by MSME:**

- 1) The success of a small enterprise revolves around the entrepreneur and its employees, provided the employees are skilled and efficient. Because inefficient human factor and unskilled manpower create innumerable problems for the survival of small industries. Non-availability of adequate skilled manpower in the rural sector poses problem to small-scale industries.
- 2) Adequate and timely supply of credit facilities is an important problem faced by small-scale industries. This is partly due to scarcity of capital and partly due to weak creditworthiness of the small units in the country.
- 3) Non-availability of sufficient quantity of raw materials, sometimes poor quality of raw materials, increased cost of raw materials, foreign exchange crisis and above all lack of knowledge of entrepreneurs regarding government policy are other few hindrances for small-scale sector.
- 4) Another major challenge faced by small-scale units is the absence of organized marketing system. In the absence of organized marketing, their products compare unfavorably with the quality of the product of large-scale units. They also fail to get adequate information about consumer's choice, taste and preferences of the type of product. The problems do not allow them to stay in the market.

### Role of Large scale Industries in India



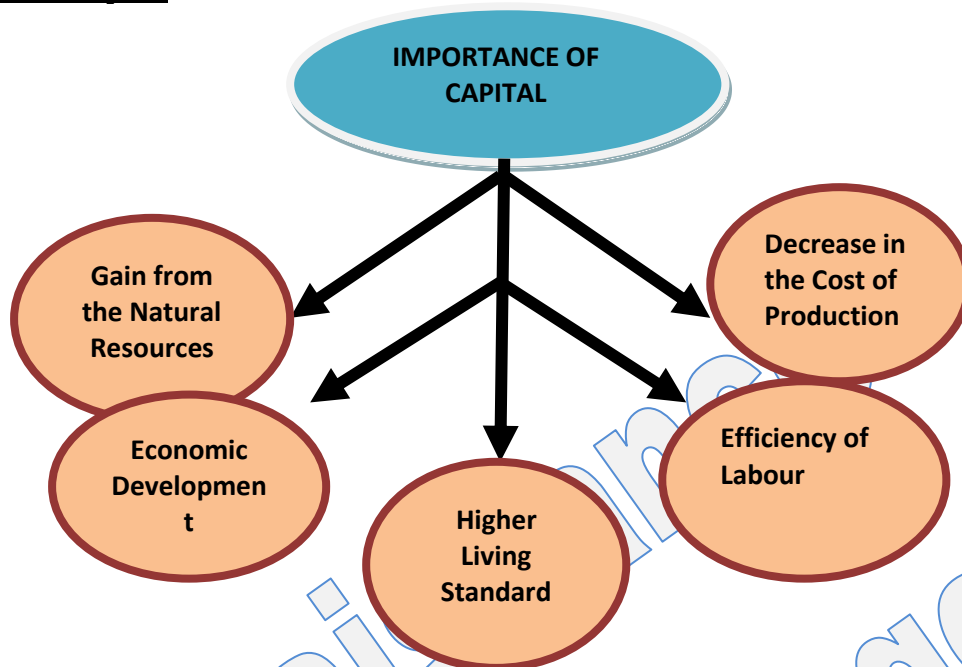
Every country needs exploring of coal, iron and steel, exploring of oil and its purification, heavy machineries, heavy electrical equipments, heavy chemicals, ships and aero planes, industries of heavy and basic industries for its development. All these industries help to develop agriculture, transport, communication facilities and other industries. It means development of large scale industries is almost essential for the development of heavy and basic industries.

- 1) **Improvement in Productivity:** In large scale industries work is distributed among the labourers according to their efficiency which improves the productivity. These industries also use huge modern capital which raises productivity and reduces cost per head. It enables the consumer to get commodities at a cheaper rate.
- 2) **Import Substitution:** Capital goods and consumer goods which are imported from the foreign countries can be produced inside the country through large scale industries. Our country will depend upon foreign countries on heavy chemicals, heavy electricity, chemical fertilizers and other consumer goods, unless we develop large scale industries. Due to the development of large scale industries, all these commodities are produced inside the country and there is no need of import which is known as import substitution.
- 3) **Export Promotion:** Large scale industries change the pattern of export. In the old days, we exported skin, tea, jute, jute products, spices of different types, and cotton clothes to foreign countries. Due to the development of large scale industries, we are now able to export engineering products, heavy electric products and other industrial products. It means large scale industries have changed the pattern of export and increased the quantity of export.

### TOPIC 6: CAPITAL FORMATION & ITS ROLE IN ECONOMIC DEVELOPMENT

**Introduction:** Capital formation is one of the major factors in economic development. It is the increase in the stock of both material and human capital by making available a part of society's currently available resources. Capital formation results when some proportion of society's present income is saved and invested in order to increase material as well as human capital. The meaning of capital formation is that society does not apply to the needs and desires of immediate consumption but directs a part of it the making of capital goods, tools and instruments, machines and transport facilities, plants and equipment, all the various forms of real capital that can so greatly increase the efficiency of productive effort."

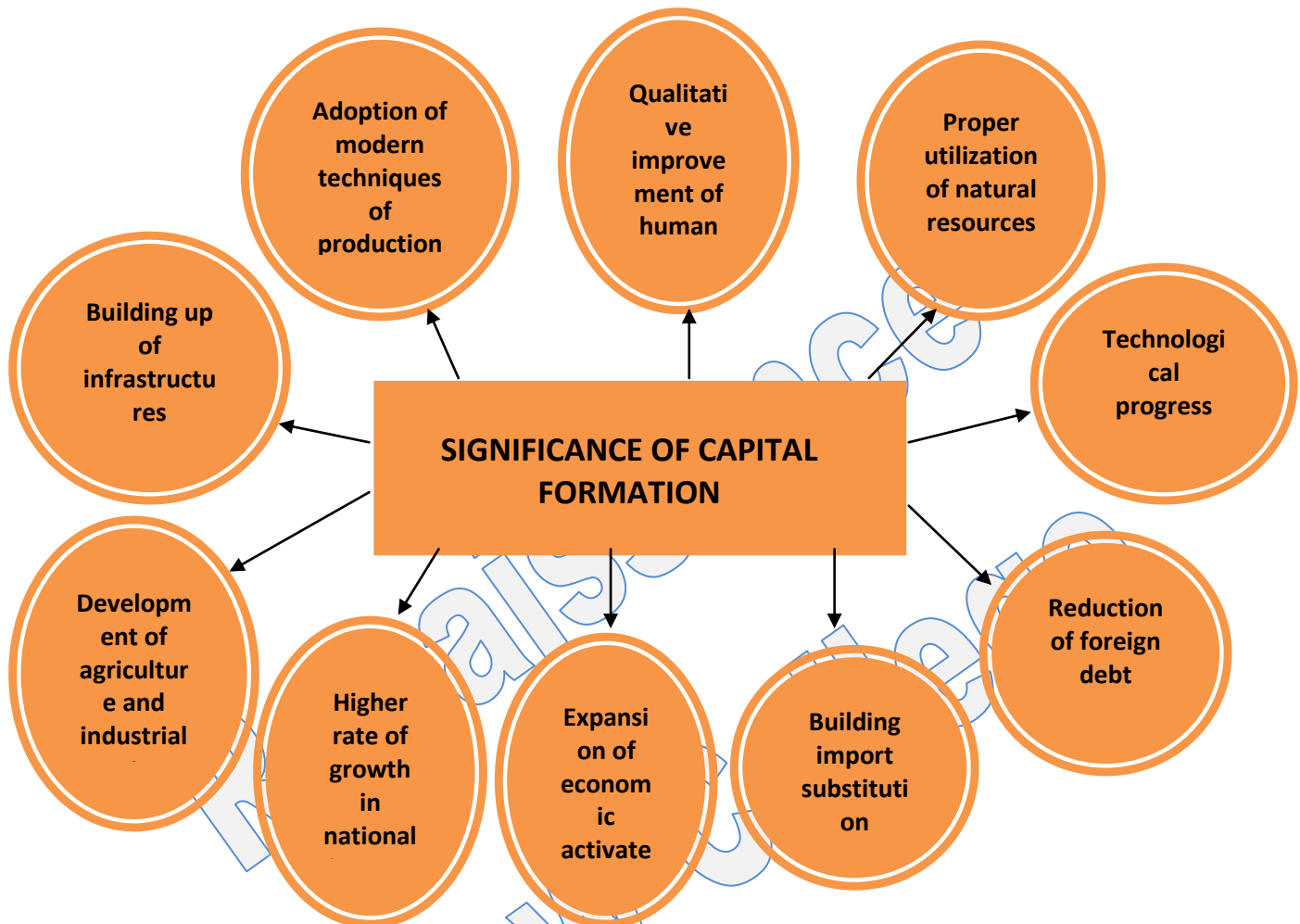
Importance of Capital



In the modern economic life the importance of capital has increased. As human life depends upon circulation of blood likewise modern industrial system is running on the basis of capital. The importance of capital can be viewed from the following:

- 1) **Gain from the Natural Resources.** Utilization of natural resources without capital is impossible, to reach mines and discover minerals, development of forests and cultivation of crop, capital is required.
- 2) **Economic Development.** Although goods are produced with the help of four factors of production and single factor of production is useless yet capital has gained an important position in the modern production structure. The economic condition of countries are now judged from capital possession.
- 3) **Higher Living Standard.** Capital helps in increasing agricultural, industrial, mineral, production and services development i.e., National Income. If the rate of increase in national income is greater than the population growth rate, living standard improves.
- 4) **Efficiency of Labour.** Capital increases the efficiency of labour. Labour can increase production with capital many times.
- 5) **Decrease in the Cost of Production.** With the involvement of capital, cost of production decreases, production increases and quality of product improves and people get it at lower price.

Significance of Capital formation



The importance or significance of capital formation in the process of economic development of a country is briefly given below.

- 1) **Building up of infrastructures.** The building up of sound infrastructure like, road, railways, communication system, power etc. is an important significance of capital formation. It greatly helps in breaking the vicious circle of poverty in the country.
- 2) **Adoption of modern techniques of production.** Capital formation helps in the use of modern techniques and adoption of complex methods of production for rapid growth in production in large scale industries.
- 3) **Qualitative improvement of human resources.** Capital formation plays an important role in the qualities improvement of human resources. The expenditure incurred on human resource development like educations, health environmental protection, social welfare etc, contributes to better health of the people and in the total productivity of the country.
- 4) **Proper utilization of natural resources.** The adequate volume of capital formation makes it possible to utilize the natural resources of a country to the maximum extent and thus increase the rate of economic growth rapidly at a higher rate.
- 5) **Technological progress.** Technological progress requires higher rate of capital formation. The technological improvements helps in getting more output from the same resources.
- 6) **Development of agriculture and industrial sectors.** Capital formation helps in the modernization of agriculture and industrial sectors in a country. The use of latest techniques of production helps in lowering cost of production and increasing production.



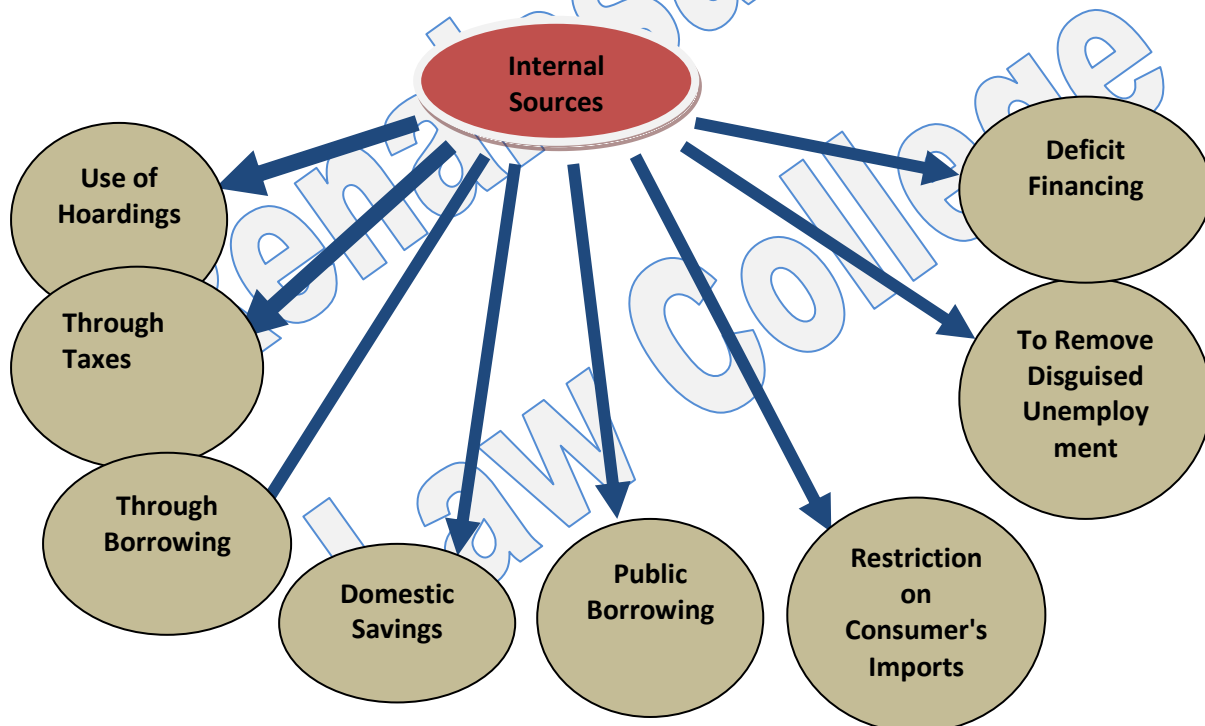
- 7) **Higher rate of growth in national income.** Capital formation is playing an important role in raising the real per capital income and GDP of the country through improved productions in different sectors of the economy.
- 8) **Expansion of economic activities.** Capital formation helps in increasing the supply of goods in a country. It thus helps in controlling inflation and bringing stability in the economy in the long run. Capital formation leads to increase in effective demand and also in investment.
- 9) **Building import substitution industries.** Capital formation helps in building and expansion of import substitution industries. The reduced demand of the foreign goods helps in solving the problem of adverse balance of trade.
- 10) **Reduction of foreign debt.** Higher rate of capital formation makes a country self sufficient in the production of goods and reduces the burden of foreign debt.

### Sources of Capital Formation

There are two sources of capital formation:

**(a) Internal Sources (b) External Sources**

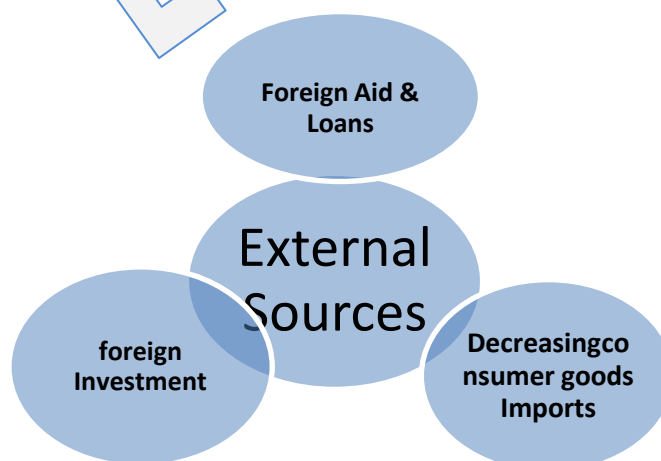
**Internal Sources:** Internal sources consist of domestic savings, borrowing from the public, taxes, deficit financing and external sources consist of grants, loans, investment and foreign aids.



- 1) **Use of Hoardings:** 70.5% of total population is living in rural areas, 65% of total population is literate and due to limited banking facilities people keep their savings in the shape of hoardings. They also keep gold and silver in the shape of ornaments for the sake of their dignity, pride and social status. In Pakistan 4% total national income is kept as hoardings and is not invested in productive purposes. For this it is necessary to increase the banking facilities in rural areas.
- 2) **Through Taxes:** If sufficient quantity of capital is not available through voluntary savings and by the use of hoardings the government receives amount through direct and indirect taxes for capital formation and for this purpose either new taxes are imposed or tax rate is increased. While imposing new taxes it is necessary that it should not affect private investment nor the burden of tax is as such that it lowers the purchasing power of the people. It is also necessary that tax collecting staff is honest hardworking and efficient and people do not avoid taxes.

- 3) **Through Borrowing:** Government can increase rate of capital formation through borrowing from the general public and financial institution but these borrowings should not hinder the private investment.
- 4) **Domestic Savings:** In developing countries saving rate is about 12% to 15% while it should be raised from 15% to 20% of GNP. Increase in voluntary savings is to restrict domestic consumption. Rigorous enforcement of existing taxes allows the government to force savings and reduce disposable income. But this method may increase involuntary savings and diminish voluntary savings. In Pakistan the ratio of saving to GNP is about 16% which is very low.
- 5) **Public Borrowing:** Government borrows from the individuals, by selling them its securities through central bank.
- 6) **Restriction on Consumer's Imports:** Restriction on imports will increase the savings of the individuals and this increase in savings will increase the rate of capital accumulation. To curtail consumption through inflation is also dangerous for development process.
- 7) **To Remove Disguised Unemployment:** To remove disguised unemployment is another way to increase capital formation. These unproductive workers can be employed on projects e. g. Roads, irrigation and construction with the nominal amount of capital. A shift of labour from agricultural sector to industrial sector, would make possible higher rate of development. It is a difficult approach as it involves the training for new jobs, additional capital equipment houses and other overhead capital. In agriculture sector there is disguised unemployment equal to 20%. Capital formation can be increased by removing disguised unemployment in rural sector. These unproductive workers can be employed on big projects like roads, irrigation and construction etc. with nominal investment. It will increase the income level of the people in rural sector. This technique will increase production and there will be no danger of inflation.
- 8) **Deficit Financing:** Deficit financing is regarded an important source of capital formation. In the developed countries this method is used for increasing effective demand and ensuring continued high levels of economic activity. In the less developed countries, it is used for generating savings by activating unemployed or underemployed resources. If capital is not available through traditional sources the government borrows from the Central Bank. Central Bank issues currency notes for this purpose without any guarantee which is called deficit financing. But this process is not free from danger because it creates inflation, if supply of goods and services does not match the existing demand.

#### External Sources



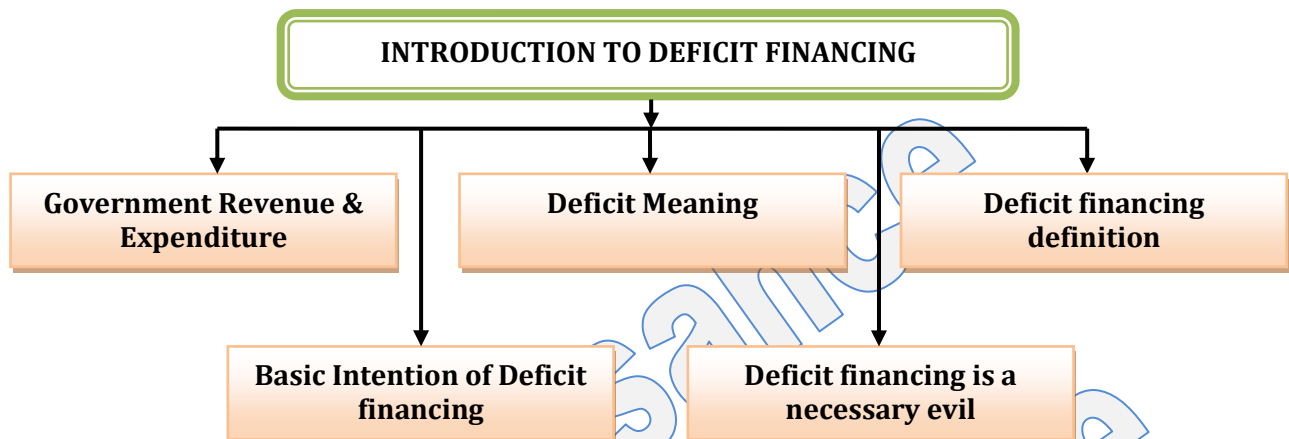
If capital is not available through traditional source, the government borrows from the Central Bank. Central Bank issues currency notes for this purpose without any guarantee which is called deficit financing. But this process is not out of danger because it creates inflation if supply of goods and services does not match with economic activity. If internal sources are insufficient then rate of capital formation can be increased through external sources which include the following:

- 1) **Foreign Aid and Loans:** In present times some of the countries receive aid loans for development programmes and for other long term projects. These aids and loans can be received from governments, international financial institutions and other consortium countries. But these aids and loans should not be conditional and the rate of interest should be low.
- 2) **Foreign Investment:** Some of the International financial agencies have invested in Pakistan and have provided services of trained persons to increase the capital formation.
- 3) **Decreasing Consumer Goods Imports:** Foreign exchange can be saved by decreasing import of consumer goods and the saved foreign exchange can be used for the import of industrial raw material, machinery and modern technology.

**Unit -3: Foreign Investments & Internal finance**

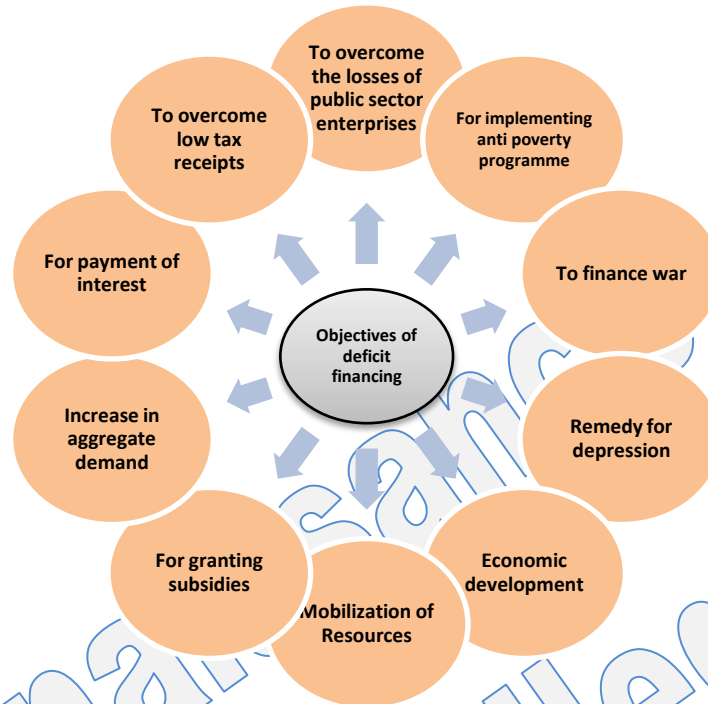
**TOPIC -1: DEFICIT FINANCING**

**Introduction to deficit financing**



- 1) **Government Revenue & Expenditure:** Government expenditure and revenue can be split into capital and revenue. Capital expenditure generally includes those expenses which result in creation of assets. Revenue expenditure is primarily that which does not result in asset creation -for example interest payments, salaries, subsidies, etc. Similarly, on the receipts side, whatever the government receives as taxes is revenue receipt. Receipts not of a recurring nature are generally capital receipts. These include domestic and external borrowings, proceeds of disinvestment, recovery of loans given by the Union government, etc.
- 2) **Deficit Meaning:** Deficit refers to the difference between expenditure and receipts. In public finance, it means the government is spending more than what it is earning.
- 3) **Deficit financing definition:** Deficit financing is defined as financing the budgetary deficit through public loans and creation of new money. Deficit financing in India means the expenditure which in excess of current revenue and public borrowing. the government may cover the deficit in the following ways.
  1. By running down its accumulated cash reserve from RBI.
  2. Issue of new currency by government itself.
  3. Borrowing from reserve bank of India and RBI gives the loans by printing more currency notes.
- 4) **Basic Intention of Deficit financing:** The basic intention behind deficit financing is to provide the necessary impetus to economic growth by artificial means.
- 5) **Deficit financing is a necessary evil:** Deficit financing is a necessary evil in a welfare state as as the states often fail to generate tax revenue which is sufficient enough to take care of the expenses of the state. Deficit financing allows the state to undertake activities which, otherwise, would be beyond its financial capacity. The concept was popularized by noted British economist JM Keynes with the aim of pumping a depressed economy.

**Objectives of deficit financing:  
Diagram**

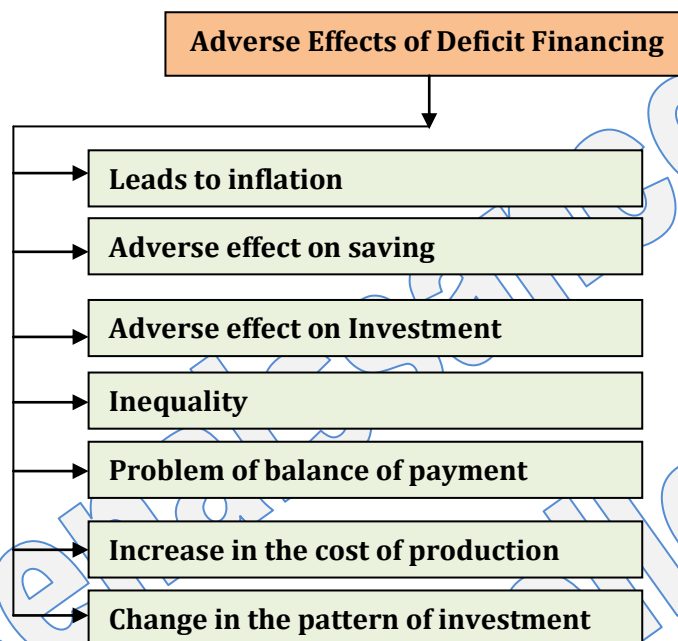


- 1) To finance war:-** Deficit financing has generally being used as a method of financing war expenditure. During the war time through normal methods of raising resources. It becomes difficult to mobilize adequate resources. Therefore government has to adopt deficit financing.
- 2) Remedy for depression :-** In developed countries deficit financing is used as on instrument of economic policy for removing the conditions of depression. Prof. Keynes has also advocated for deficit financing as a remedy for depression and unemployment.
- 3) Economic development:-** The main objective of deficit financing in an under developed country like India is to promote economic development. The use of deficit financing in fact becomes essential for financing the development plan especially in underdeveloped countries.
- 4) Mobilization of Resources :-** deficit financing is also used for the mobilization of surplus, ideal and unutilized resources in the country.
- 5) For granting subsidies :-** In a country like India government grants subsidies to the producers to encourage them to produce a particular type of commodity, granting subsidies is a very costly affair which we cannot meet with the regular income this deficit financing becomes must for it.
- 6) Increase in aggregate demand :-** Deficit financing loads to increase in aggregate demand through increased public expenditure. This increase the income and purchasing power of the people as a consequence there is an increase availability of goods and services and the production and employment level also increase.
- 7) For payment of interest:-** Loan which are taken by the govt. are supposed to be repaid with their interest for that government needs money deficit financing is an important tool to get the income for the repayment of loan along with the interest.



- 8) To overcome low tax receipts
- 9) To overcome the losses of public sector enterprises
- 10) For implementing anti poverty programme.

#### ADVERSE EFFECTS OF DEFICIT FINANCING



Deficit financing is not free from its defects. It has its adverse effect on economy. Important evil effects of deficit financing are given below.

- 1. Leads to inflation :-** Deficit financing may lead to inflation. due to deficit financing money supply increases & the purchasing power of the people also increase which increases the aggregate demand and the prices also increase.
- 2. Adverse effect on saving:-** Deficit financing leads to inflation and inflation affects the habit of voluntary saving adversely. Infact it is not possible for the people to maintain the previous rate of saving in the state of rising prices.
- 3. Adverse effect on Investment :-** deficit financing effects investment adversely when there is inflation in the economy trade unions make demand for higher wages for that they go for strikes and lock outs which decreases the efficiency of Labour and creates uncertainty in the business which a decreases the level of investment of the country.
- 4. Inequality :-** in case of deficit financing income distribution becomes unequal. During deficit financing deflationary pressure can be seen on the economy which make the rich richer and the poor, poorer. The fix wage earners are badly effected and their standard of living detoriates thus no gap b/w rich & poor increases.
- 5. Problem of balance of payment :-** Deficit financing leads to inflation. A high price level as compared to other countries will make the exports more expensive and thus they start declining. On the other

hand rise in domestic income and price may encourage people to import more commodities from abroad. This will create a deficit in balance of payment and the balance of payment will become unfavorable.

**6. Increase in the cost of production :-** When deficit financing leads to the rise in the price level the cost of development projects also rises this means a larger dose of deficit financing is required on the part of government for completion of these projects.

**7. Change in the pattern of investment:-** Deficit financing leads to inflation. During inflation prices rise and reach to a very high level in that case people instead of indulging into productive activities they start doing speculative activities.

**India and Deficit Financing: (Is deficit financing inevitable? )**

- 1) Deficit financing is *neither good nor bad*. it depends upon the circumstances in which it is resorted to and the economic policy which is followed to neutralize its adverse consequences.
- 2) A certain measure of deficit financing is inevitable in India under the planned economic development as one of the objectives of the planning is to step up the tempo of the economic progress beyond what it would have been in absence of planning.
- 3) India resorted to deficit financing, then largely financed through Reserve Bank's books either by printing more money or use of its foreign exchange reserves, right from the early years of planned economic development.
- 4) However, our planners did not factor in the impact of deficit financing on inflation. But with large foreign exchange reserves, they were confident of the government's ability to manage the supply-side of the economy.
- 5) For much of the 1950s, the Bank was part of this consensus. Although the impact of deficit financing on prices had aroused concern already in 1951-52, price stability did not return as a major cause of worry at the Bank until the mid-50 s. Besides, the Bank recognised the need for any plan to go beyond what available resources dictated, even if some part of the additional investment had to be financed through additions to money supply.
- 6) As far as deficit financing does not lead to inflation, there is no objection to its use. However, unfortunately, extent to which India has been practicing deficit financing has gone way beyond what could possibly have been contemplated by Lord Keynes.

**Relation of Deficit Financing and Inflation:**

- 1) Deficit financing may not necessarily be inflationary there are certain conditions under which deficit financing may not lead to inflation. With increase in money supply due to deficit financing prices do rise but rise in price will only be temporary for about a period.
- 2) As flow of goods and services increase prices will begin to fall. deficit financing is an important device for financing development plans for underdeveloped countries and accelerate their rate of economic development. But If deficit financing is not kept within limits It may give rise to prices, distorted investment and unequal and unjust distribution of income. therefore it is essential that deficit financing is kept within limits and its impact on prices and costs are softened through various controls.

**TOPIC -2 : INTERNATIONAL INVESTMENTS**

**Foreign Capital**

The capital which comes from other countries is called 'foreign capital'. Almost all countries depended upon foreign capital at the beginning of development. England borrowed from Holland in the 17th and 18th centuries. The USA, now the richest country in the world borrowed heavily in the 19th century for its development 'outlay'. China developed with the help of the then USSR.

The foreign capital is of two types.—They are :

**1) Direct Investment.—**

- a. Investment by branches of foreign companies
- b. investment by subsidiaries of foreign companies and
- c. investment by other foreign-controlled companies.

**2) Portfolio Investment—**

- a. equity holdings by non-residents in the recipient country's joint stock companies,
- b. credit capital from private sources abroad invested in recipient country's stock companies, and
- c. credit capital from official sources in recipient country's joint stock companies.

**Forms of Foreign Capital**

- 1) **Private Foreign Investment**—This is also known as portfolio or re-enter investment. The new industrial enterprises may be started by foreigners. The capital for such concerns is subscribed by foreigners in the form of shares.
- 2) **Foreign Collaboration**—This represents joint participation between domestic and foreign capital. There are three types of foreign collaborations-joint participation between private parties, between foreign firms and Indian government and between foreign government and Indian Government.
- 3) **Inter-governmental Loans**—Advanced countries provide grants and loans to governments of less developed countries.
- 4) **Loans from International Institutions**—The International Bank of Reconstruction and Development (IBRD), International Monetary Fund (IMF), Asian Development Bank (ADB), etc. provide foreign capital.
- 5) **External Commercial Borrowings (ECB)**—The credit agencies like the US Exim Bank, the Japanese Exim Bank of the UK, etc. supply major portion of the commercial borrowings from the capital market.

**Role of Foreign Capital in Economic Development**

Foreign capital combined with skill and enterprise is essential for the development of under-developed countries in several ways:

- 1) It is necessary to invite foreign capital when domestic capital is inadequate for the purpose of economic growth.
- 2) Foreign capital supplements domestic savings harnesses them to secure a rapid rate of growth.
- 3) It provides technological expertise and helps in build modern industrial structure.
- 4) It paves the way for the investment of domestic at into new and desirable channels not attempted in the country before for lack of bold entrepreneurship.
- 5) It provides valuable foreign exchange.
- 6) It eases pressures on the balance of payments.
- 7) It can help developing countries in breaking the vicious circle of poverty.
- 8) During the early stages of economic development backward countries, the vast natural resources would, exploited quickly with foreign capital.
- 9) Foreign capital helping to import some of the essential goods of consumption can help contain inflationary pressures in the economy making the process, development relatively easy and smooth.
- 10) Foreign capital reduces the strain of development people of developing countries.

**Dangers Associated with Foreign Capital**

- 1) The foreign capital may result in the drain of the back country's wealth.
- 2) Foreign capitalists exploit our valuable natural resources for their own benefits instead of promoting econ development in the country and thus led to a se drain on our limited resources.

- 3) It is observed that foreign capital in its way bring developing countries the economic and political domination.
- 4) It is seen that historically, foreign capital, instead of helping backward countries to help them to industrialize, generally tried to exploit their raw materials like minerals and industrial raw materials.
- 5) The foreign companies in developing countries reserve higher managerial and technical posts for their own nationals, thus denying adequate opportunities of training the people in developing countries.
- 6) Foreign capital can be very prejudicial to the national interests of developing countries. In times of emergency, since foreign capital controls basic and heavy industries, they can create difficulties for developing countries.
- 7) Foreign capital results in great dependence of developing countries on foreign companies for intermediates, spares, etc.
- 8) The payments of royalty, technical fees, etc. exhaust our scarce foreign exchange reserves. A stage comes when the outgoings exceed the receipts of foreign capital.
- 9) Often obsolete machines and out of date technology were passed on to India to our great disadvantage. Sometimes foreign equipment was imported beyond what was required. Technologies unsuitable to Indian conditions were also often imported which proved to be a dead weight.
- 10) Undue reliance on foreign technical know-how damages local initiative.
- 11) Foreign capitalists avoided venturing in fields which, though very desirable for economic development, were not so lucrative. Foreign investment was generally confined to certain spheres only. It thus results in lopsided economic development]

#### Forms of Foreign Investment

1) **Private Foreign Investment:** Private foreign investment may be in two forms:

- **Equity investment**—Equity investment means the participation by the investor in the ownership, management and control of business enterprise. The foreign investor purchases shares of a company and to that extent he becomes the owner of the enterprises like shareholders from among the nationals of the borrowing country. Under equity investment the foreign investor has the same legal rights and obligations as the domestic investor of the borrowing country. They have the share profits. Private foreign capital generally comes in the form of equity investment.
- **Portfolio investment**—By foreign 'portfolio investment' meant loans obtained from foreigners (they may be private individuals, government or international institutions) at fixed rate of interest and with no share in ownership, management and control of the enterprise for which foreign loan might have been used.

#### Merits of Private Foreign Investment

- 1) Private foreign investment not only provides finance but also managerial, administrative and technical personnel new technology, research and innovations in products and techniques of production which are in short supply in India.
- 2) This may, in turn, encourage local enterprise to invest more itself in ancillary industries or in collaboration with foreign enterprise.
- 3) By bringing capital and foreign exchange, private investment helps in filling the savings gap and the foreign exchange gap in order to achieve the goal of national economic development in India.
- 4) A part of the profits from direct foreign investment is generally ploughed back into the expansion, modernization or development of related industries.
- 5) Private foreign investment adds more value added to output in the recipient country than the return on capital from foreign investment.



- 6) Private foreign investment also brings revenue to the Government when it taxes profits of foreign firms or gets royalties from concerned agreement.
- 7) Private foreign investment helps in raising productivity and in result the real wages of local labour will rise.
- 8) Direct private foreign investment places less burden on the balance of payments of an underdeveloped country' in the early stages of development.
- 9) Lastly, private foreign investment flowing into a developing country also encourages its entrepreneurs to invest in other underdeveloped countries.

**Demerits of Private Foreign Investment**

- 1) The recipient country may be required to provide basic facilities like land, power, and other public utilities, concessions in the form of tax holiday, development rebate, rebate on undistributed profits, additional depreciation allowance, subsidized inputs, etc. Such facilities and concessions involve cost in absorbing and under developed country's resources that could be utilized elsewhere by the Government.
- 2) To attract private foreign investment, India has to provide sufficient facilities for transferring profits, dividends, interest and principal. If these payments lead to a net capital outflow they create serious balance of payments difficulties. Thus, the indirect costs of debt servicing and balance of payments adjustments create serious foreign exchange crisis, they adversely affect the national economy.
- 3) Private foreign investment involves costs in the form of a loss of domestic autonomy when foreign firms interfere in policy-making decisions of the government which favours the foreign enterprises.
- 4) Private foreign investment brings in highly capital-intensive technologies which do not fit in the factor proportions.
- 5) No doubt, private foreign investment increases investment, employment, incomes and savings, but it adversely affects income distribution when it competes with home investment.
- 6) Many foreign concerns reserve all senior executive posts for their nationals and pay them very high salaries with many perks which are a huge drain on the resources of the recipient country.

**Factors Obstructing the Flow of Private Foreign Capital into India**

- 1) The progressive policy of nationalization, and the reservation of a big field for the public sector under the Industrial Policy, 1956.
- 2) Increasing controls and restrictions incorporated in the Companies Act of 1956 on legitimate industrial activity.
- 3) The fourth amendment to the Constitution removing safeguards in the nature of judicial review of expropriation of private property.
- 4) The shift in emphasis from the capitalistic pattern society, to the 'socialist pattern of society' and then to 'socialist society.'
- 5) High level of taxation on profits and corporate earnings
- 6) Compared with the rate of return on investment in their respective home countries, the returns to the foreign companies are less.
- 7) The scarcity in availability of foreign exchange for the foreign investors to remit dividends, interest and capita when they desire.
- 8) The absence of information as well as misinformation about the investment opportunities in India.
- 9) The restriction on the entrance and employment of foreign personnel.
- 10) The Indian businessmen have a halting and hesitant attitude towards the influx of foreign capital.
- 11) Absence of banking facilities.
- 12) Inadequate or lack of economic and social infrastructure.



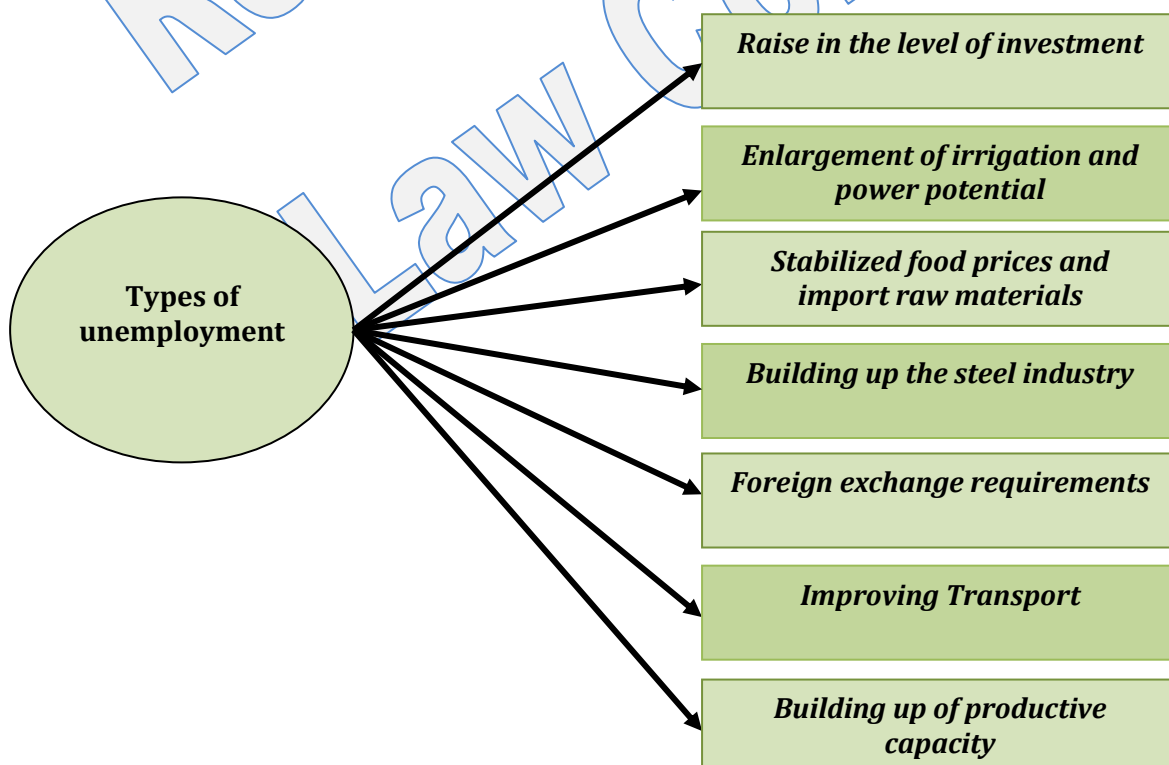
- 13) Economic instability especially due to inflationary pressure operating in India.
- 14) Unsatisfactory law and order conditions and especially unsatisfactory labour conditions.

**2) Loans and grants:** Apart from private foreign capital, the Government of India has received loans and grants from foreign governments and institutions. This is often referred to as foreign aid. This is also called Portfolio capital. The loans, involve repayment obligation but the grants do not involve any such obligation. The loans which have a larger repayment period and carry a lower rate of interest are known as 'Soft loans'. The loans contracted at higher rates of interest and having shorter repayment periods are known as hard loans.

- **Untied or Programme Aid**—Untied aid can be preferred because they are free to utilize aid in accordance with their development-programmes-in agriculture, industry, transport, and in any other infrastructure. Untied aid also reduces the real costs of aid as the recipient can buy its requirements at competitive rates from the world markets and there are no inter-bureaucratic fractions as under tied aid. The recipient country can use an appropriate technology in keeping with its factor endowments and allocate its resources in a much better way than under tied aid.
- **Tied or Project Aid**—It has been defined "as assistance whose disbursement is tied to capital investment in a separate productive activity".

Aid tying by source is followed by the US Government in giving assistance under PL 480 and Exim Bank loans by Britain. The US aid programme requires the recipients to spend the aid on US goods and services. All credits are automatically linked to US exports. Any departure from this tying by source means discontinuance of aid.

### The Impact of Foreign Aid on Indian Economic Development



- 1) **Raise in the level of investment**—The rate of investment has substantially increased. With this increase in the rate investment, the need for foreign exchange also correspondingly increased. It would have been impossible for India to get over difficulty without foreign aid.
- 2) **Enlargement of irrigation and power potential**—External aid has contributed to the productive capacity of agriculture thro enlarging the irrigation potential of the country. Foreign aid has, a big way, helped also to enlarge the power potential of the country.
- 3) **Stabilized food prices and import raw materials**—Of total aid utilized, a little less than half represents aid in kind commodity aid; the bulk of foreign aid has been utilized to import foodgrains which had played a significant role in solving India's food problem and in checking foodgrain prices from rising. During the shortage of foodgrains, it was with American aid, that India could import huge amounts of foodgrains to solve the problem under PL 480 assistance of the USA. A part of the aid was used import raw materials or spare parts which were in short supply, the country and this had substantially contributed to increase production in the country.
- 4) **Building up the steel industry**—Foreign aid has played important role in the production of steel in the country. Over eight per cent of foreign aid meant for manufacturing industries has go into the expansion and creation of capacity in the steel industry. In the public sector, steel plants at Rourkela, Bhilai, Durgapur have b established with the aid from West Germany, the USSR and the UK. The USSR provided assistance for the Bokaro and Visakhapatnam steel plants also.
- 5) **Foreign exchange requirements**—Foreign aid is primarily meant to meet the foreign exchange requirements of India. Norma imports are paid for by exports. Since 1951, India's imports machinery, equipment, industrial raw materials and foodgrains ha increased tremendously. But India's exports could not be increase correspondingly mainly because of inadequate surplus in India. Foreign aid has been very useful in meeting adverse balance payments.
- 6) **Improving Transport**—Transport has absorbed 14 per cent of foreign aid out of which 12 per cent has gone to the railways. It has played an important role in improving and expanding the railway transport system.
- 7) **Building up of productive capacity**—The role of external assistance in providing technical services for direct participation in the building up of productive capacity has been quite important.

Thus, the availability of external aid has enabled India to undertake far more ambitious programmes of development than would have been possible with her own resources. With the foreign aid the public sector has been enabled to acquire the Commanding.

#### **Limitations or dangers of foreign aid**

- 1) Dependence on foreign aid is dangerous because it may be cut off for some reason or the other. For instance in 1965 and 1971 the USA and others cut off assistance to India soon after the conflict between India and Pakistan started. With the explosion of test bombs, the USA and other countries imposed sanctions against India. Many industries depending upon foreign machinery, equipment, spare parts and raw material had to slow down their production.
- 2) External aid imposes serious burdens on the debtor country in the form of interest payment and repayment of the principal— this is known as 'external debt servicing'. Because of continuous borrowing from other countries and international institutions, India's external debt

servicing is mounting. This heavy burden has to be met through additional exports. We are forced to borrow from other countries to meet external debt servicing. This is a dangerous situation and has come to be known as 'debt trap'.

- 3) Foreign aid has been subject to the 'winds of political diplomacy which have lent it uncertainty and unstable character.
- 4) A very large proportion of aid is tied to creditor countries and to projects.
- 5) The private enterprise economies have been generally reluctant to extend loans to India for the growth of the public sector.
- 6) In the name of aid, developed countries foisted on us wrong technological choices and expensive plant and equipment.
- 7) While the foreign loans have been project tied they have not covered in practice all items of import needed for specific project.

The gross aid utilized during 2000-01 is Rs. 14,254 crores and it is Rs. 17,255 crores during 2005-06

#### **Government Policy towards Foreign Capital/Investment**

The policy of the Government of India regarding foreign capital was enunciated in the Prime Minister's statement in the Constituent Assembly in April, 1949. It laid down that:

- i) "The participation of foreign capital and enterprise should be carefully regulated in the national interest by ensuring that major interest in ownership and effective control should save in exceptional cases always be in Indian hands that the training of suitable Indian personnel for the purpose of eventually replacing foreign experts will be insisted upon in all such cases.

It was, however, in the Industrial Policy Statement of 1973 that a clear-cut policy with regard to foreign concerns and subsidies and branches of foreign companies was laid down for the first time. All such companies were made eligible to participate in the group of 19 industries specified in Appendix I but were ordinarily excluded from other industries. They were to be on the basis of foreign collaboration with Indian entrepreneurs in the fields of equity capital, know-how and technology.

The Industrial Policy Statement of 1977 restricted foreign equity participation to 40 per cent. The participation of foreign investment and foreign companies was made strictly in accordance with Foreign Exchange Regulation Act (FERA). It was also laid down that the Government would issue a list of industries where no foreign collaboration was deemed necessary.

#### **The Industrial Policy Statement of 1980 laid the following guidelines regarding foreign collaboration and technology:**

- i) In order to promote technological self-reliance, the Government recognised the necessity of continued inflow of technology in sophisticated and high priority areas.
- ii) Regarding participation of foreign investment and foreign companies in India's industrial development, a higher percentage of foreign equity was considered in priority industries:
- iii) For a I approved foreign investment, financial and technological, there would be complete freedom for remittance of profits, royalties and dividends.
- iv) As a rule, majority interest in ownership and effective control would be in Indian hands.
- v) There might, however, be exceptions in highly export-oriented areas. In hundred per cent export-oriented areas, even a fully owned foreign company might be allowed.

**In the Industrial Policy Statement of 1991, the Government announced a more liberalized foreign investment policy. Its main features are:**

- 1) As against the past policy of considering all foreign investment on a case by case basis within the ceiling of 40 per cent of total equity investment.
- 2) Automatic approval is given for foreign direct investment in 34 high priority, capital-intensive, hi-technology industries.
- 3) Foreign technology agreements are also liberalized for the 34 industries with firms left free to negotiate the terms of technology transfer based on their own commercial judgment and without the need for prior Government approval;
- 4) In order to avail of professional marketing activities for systematic exploration of world markets for foreign products, foreign equity holding up to 51 per cent would be permitted for trading companies as well; and
- 5) The procedures for investment in non-priority industries have been streamlined. A special board called the Foreign Investment Promotion Board (FIPB) has been established to negotiate with large international firms and to expedite the clearances required.

**After 1991, several additional measures were taken to encourage direct foreign investment, portfolios investment, NRI investment, etc. These measures are-**

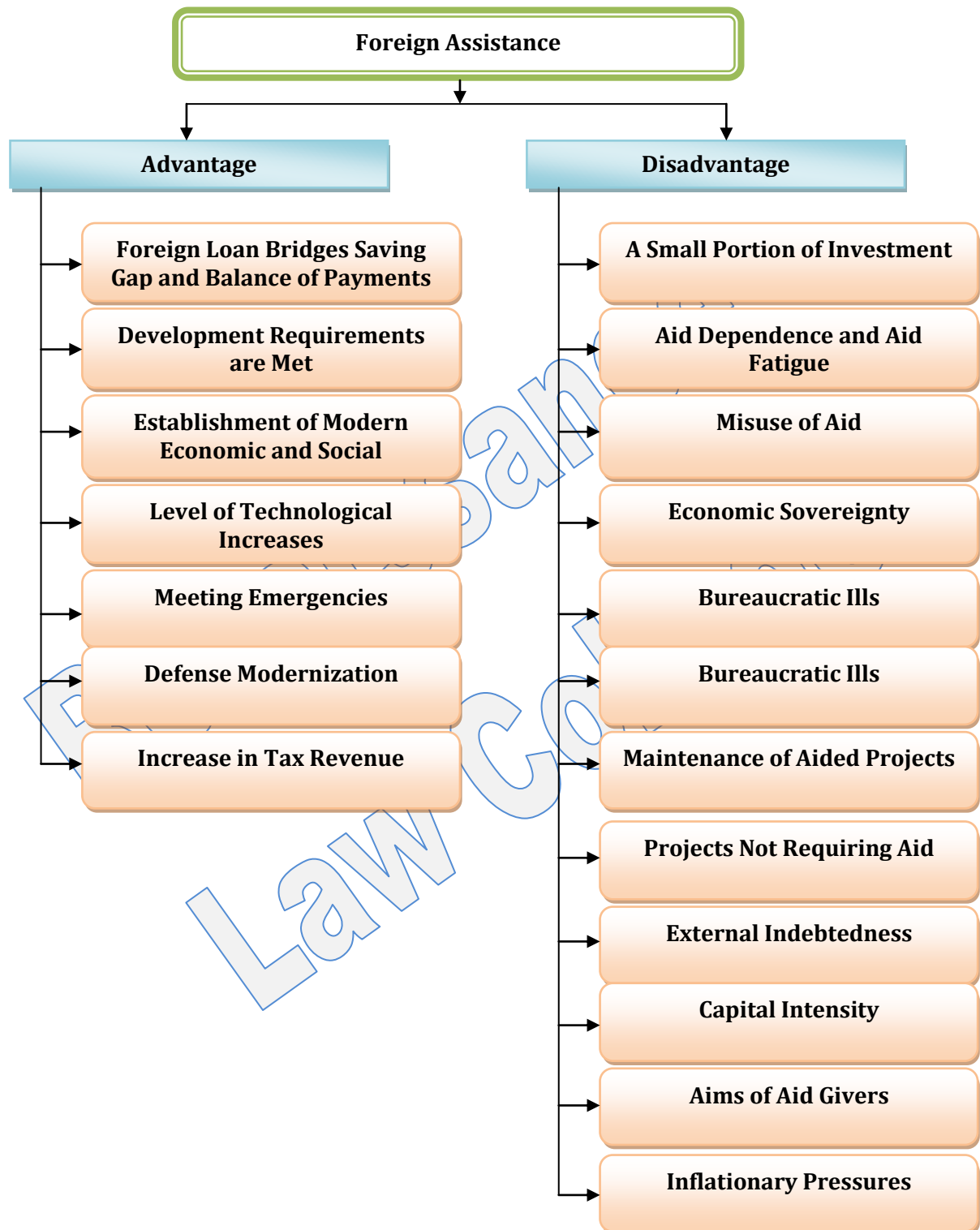
- i) The dividend-balancing condition earlier applicable to foreign investment up to 51 per cent equity is no longer applied except for consumer goods industries.
- ii) Existing companies with foreign equity can raise it to 51 per cent subject to certain prescribed guidelines. Foreign direct investment has also been allowed in exploration, production and refining of oil and marketing of gas. Captive coal mines can also be owned and run by private investors in power.
- iii) India has signed Multilateral Investment Guarantee Agency Protocol for the protection of foreign investors on 13th April, 1992.
- iv) Provisions of the FERA have been liberalized as a result of which companies with more than 40 per cent of equity are also now treated at par with fully Indian owned companies.
- v) Foreign companies have been allowed to use their trade mark on domestic sales.

As a consequence of the measures taken by the Government during August, 1991 and September, 1996 the Government approved total foreign investment of the order of Rs. 97,780 crores, about 77 times the Rs. 1270 crores of foreign investment in the last decade (1981-1990).

The utilization of external assistance during Eighth Plan is Rs. 56,664 crores, during Ninth Plan is Rs. 71,201 crores and during Tenth Plan is Rs. 88,537 crores.

### **TOPIC -3 : INTERNATIONAL AID/FOREIGN ASSISTANCE**

**Meaning of Foreign Assistance :** Foreign assistance or foreign aid refers to funding the United States provides to other countries. Sometimes foreign assistance is given directly to a country's government either in cash or "in-kind," meaning physical items such as tents, food, or weapons. But U.S. development assistance is mainly delivered by nongovernmental organizations directly to local communities to address their needs and support their development efforts.



#### **Advantages of Foreign Aid:**

Foreign economic assistance is very important for economic development of India. The advantages or benefits of such assistance are as under:

**1. Foreign Loan Bridges Saving Gap and Balance of Payments :** In India due to low national income and poverty, per capital income is very low hence rate of savings is very low. Low savings rate cannot help in capital formation and economic development. Similarly imports are greater than exports



therefore there is always deficit in balance of payments. Foreign loan, aid not only bridges domestic savings gap but also helps in overcoming balance of payments problem.

**2. Development Requirements are Met:** India wants to develop agriculture, industry, power and natural resources of the country but due to lack of foreign exchange, required technology could not be imported. Foreign aid and loan facilities help Govt. to import the required technology and basic raw material with which different sectors of economy can develop and due to utilization of modern machines productivity is enhanced. Thus productivity of various sectors of economy increases.

**3. Establishment of Modern Economic and Social Infrastructure:** Economy of a country cannot grow without the presence of economic infrastructure i.e., availability of gas, power, transport and communication. Similarly social infrastructure (i.e., education, training and health facilities), is also essential. These infrastructure facilities require local and foreign capital, which is very limited in India. Foreign aid helps government to establish these infrastructures. When construction and other development activities are started in the country, these generate employment opportunities for the people.

**4. Level of Technological Increases :** With the help of foreign aid which is in the way of technical collaboration or project aid, modern machines are used, which produce super quality goods in greater numbers. Hence by using goods of high quality consumers are benefited.

**5. Meeting Emergencies:** Foreign aid helps India in emergencies. Whenever there is an earthquake, flood or some other natural calamities, Food Aid program provides India different types of food items such as wheat, dry milk etc.

**6. Defense Modernization:** India wants to modernize its defense capabilities, which can only be possible provided foreign aid is available. Modern Fighter Planes, F-16 and other modern warfare technology can only be secured with the help of foreign aid and loan, as India do not have sufficient foreign exchange to finance this crucial requirement of the country.

**7. Increase in Tax Revenue :** When foreign loan is utilized for established of industries and social overheads then economic activities grow, goods and services are produced, foreign trade is increased, all these factors increase Governments' income through different tax sources.

#### **Disadvantages of Foreign Aid:**

**1. A Small Portion of Investment:** It is claimed that even under most favourable circumstances, foreign aid can only contribute a small proportion of the investment needs of a developing country. The major growth effort has to be its own. It is, therefore, a risky strategy to depend upon foreign aid for growth, particularly because of the risks involved in the form of growing external indebtedness and other possible ill-effects. Critics claim that with a strong will and adequate effort, a backward country should be able to get out of its state of poverty and backwardness.

**2. Aid Dependence and Aid Fatigue:** Growth through foreign aid is a long drawn out process. Therefore, with the passage of time, aid-givers develop an aid-fatigue (that is, they lose interest in giving aid). Similarly, as we have argued elsewhere also, there is an unsustainable increase in the import-dependence of the aid-receiving countries. Their import needs increase which they are not able to pay for.

**3. Misuse of Aid:** There is no guarantee that foreign aid will be used productively and not wasted on unproductive or low-priority projects. It may even go into consumption stream of the aid-receiving country. Proper and effective utilization of aid requires a sophistication of its own. For people who argue like this, foreign aid is neither necessary nor sufficient for economic growth.

**4. Economic Sovereignty:** In tied aid, the growth priorities and strategies are (at least partly) in the hands of the aid-givers. It can lead to an imposed misallocation of resources with long-term harmful effects.

**5. Bureaucratic Ills:** Implementation of projects financed with foreign aid passes through the hands of bureaucrats of both aid-giver and aid-receiving countries. This results in avoidable delays and cost overruns

**6. Uncertainty:** Even under the best possible circumstances, inflow of foreign aid suffers from an element of uncertainty. This hinders long-term growth plans of an aid-receiving country. Cases are also known where foreign aid was suddenly withheld by an aid-giving country for political or other non-economic reasons.

**7. Maintenance of Aided Projects:** In a number of cases, the governments of the aid-receiving countries accept wrong priorities thrust upon them by the aid-givers. This frequently leads to a situation where the aided projects include those which cannot be financed and maintained by an aid-receiving country after their completion.

**8. Projects Not Requiring Aid:** There is a risk that foreign aid may be taken for those projects for which no imported inputs are needed and which can be implemented with domestically available inputs. Aid-receiving history of India is full of such examples, which include construction of irrigation canals, forestry projects, sewerage facilities and the like. All such projects needed only local material and rupees to buy them. Depending upon foreign aid (say US dollars) for such projects retards the social and economic growth of a country and India also suffered on this account. The causes of these ill-effects include the following:

- i. The legislators and general public are not aware of the fact that foreign funds for such projects means sanctioning of loans in foreign currencies. And, foreign currencies are not needed for procuring inputs including labour from within the country.
- ii. Projects which do not need imported inputs but are still highly helpful for social and economic development of the country are not taken up unless "foreign aid is available for them."

Foreign aid, therefore, becomes a barrier to growth rather than a help for it. It becomes a hurdle against domestic growth efforts.

**9. External Indebtedness:** There is a strong possibility of an aid-receiving country being unable to add sufficiently to its export earnings. Consequently, there is an inherent tendency for its external indebtedness to increase cumulatively and become unsustainable.

**10. Capital Intensity:** It is argued that aided projects use capital-intensive (though obsolete) technology. Consequently, they are not able to provide adequate employment to the labour in the host country. After some time, compared with the position in the aid-giving countries, the technology used in aid-receiving country is old. As a result the products of the aided projects are not able to compete in international markets.

**11. Aims of Aid Givers:** Aid-giving countries have been using it as a means of promoting and protecting their own interests, including political ones. They have been trying to impose highly stringent conditions on the aid-receiving countries. They have also used their economic strength for imposing unfavourable terms of trade and specific monetary and fiscal policies.

**12. Inflationary Pressures:** It has been noticed that projects selected for aid-giving tend to be those which do not immediately add to the supply streams of common consumption goods. The projects, however, add to the demand streams of such goods. This imbalance, therefore, adds to the inflationary pressures in the economy.

**UNIT-4 : IMPORT & EXPORT POLICIES**

**TOPIC-1 : EXIM POLICY**

**Meaning of Foreign Trade**

- 1) Foreign trade is exchange of capital, goods, and services across international borders or territories. In most countries, it represents a significant share of gross domestic product (GDP)
- 2) International trade means trade between the two or more countries. International trade involves different currencies of different countries and is regulated by laws, rules and regulations of the concerned countries. Thus, International trade is more complex.
- 3) **According to Wasserman and Haltman**, "International trade consists of transaction between residents of different countries".
- 4) **According to Anatol Marad**, "International trade is a trade between nations".
- 5) **According to Eugeworth**, "International trade means trade between nations".
- 6) International or Foreign trade is recognized as the most significant determinants of economic development of a country, all over the world. The foreign trade of a country consists of inward (import) and outward (export) movement of goods and services, which results into outflow and inflow of foreign exchange. Thus it is also called EXIM Trade.

**What is Foreign Trade/EXIM Policy**

The Union Commerce Ministry, Government of India announces the integrated Foreign Trade Policy FTP in every five year. This is also called EXIM policy. This policy is updated every year with some modifications and new schemes. New schemes come into effect on the first day of financial year i.e. April 1, every year. The Foreign trade Policy which was announced on Thursday August 28, 2009 is an integrated policy for the period 2009-14.

**Objectives of Foreign Trade Policy 2009-14 :**

1. To arrest and reverse declining trend of exports is the main aim of the policy. This aim will be reviewed after two years.
2. To Double India's exports of goods and services by 2014.
3. To double India's share in global merchandise trade by 2020 as a long term aim of this policy. *India's share in Global merchandise exports was 1.45% in 2008.*
4. Simplification of the application procedure for availing various benefits
5. To set in motion the strategies and policy measures which catalyse the growth of exports
6. To encourage exports through a "mix of measures including fiscal incentives, institutional changes, procedural rationalisation and efforts for enhance market access across the world and diversification of export markets.

**Main Features of EXIM Policy 2009-14 :**

- 1) **Targets:**
  1. Export Target : \$ 200 Billion for 2010-11
  2. Export Growth Target : 15 % for next two year and 25 % there after.
- 2) **EPCG Scheme:**
  1. Obligation under EPCG scheme relaxed.
  2. To aid technological upgradation of export sector, EPCG Scheme at Zero Duty has been introduced.
  3. Export obligation on import of spares, moulds etc. under EPCG Scheme has been reduced by 50%.
- 3) **Refixation of Annual Average 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 5 year Policy period 2009-14. Support for Green products and products from North East extended.

**4) Towns of Export Excellence (TEE)**

The following cities have been recognized as towns of export excellence (TEE)

1. **Handicrafts** : Jaipur, Srinagar and Anantnag
2. **Leather Products** : Kanpur, Dewas and Ambur
3. **Horticultural Products**: Malihabad

**5) Announcements For Marine sector :**

1. Fisheries exempted from maintenance of average EO under EPCG Scheme (along with 7 sectors) however Fishing Trawlers, boats, ships and other similar items shall not be allowed for this exemption.
2. Additional flexibility under Target Plus Scheme (TPS) / Duty Free Certificate of Entitlement (DFCE) Scheme for the marine sector.

**6) Announcements for Gems & Jewellery Sector:**

1. Duty Drawback is allowed on Gold Jewellery exports to neutralize duty incidence.
2. Plan to establish "Diamond Bourse (s)" with an aim to make India and International Trading Hub announced.
3. Introduction of a new facility to allow import on consignment basis of cut & polished diamonds for the purpose of grading/ certification.
4. 13 value limits of personal carriage have been increased from \$ 2 million to US\$ 5 million in case of participation in overseas exhibitions.
5. 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.
6. Time limit of 60 days for re-import of exported gems and jewellery items, for participation in exhibitions has been extended to 90 days in case of USA.

**7) Announcements for Agro Exports:**

1. Introduction of a single window system to facilitate export of perishable agricultural produce with an aim to reduce transaction and handling cost.
2. This system will involve creation of multi-functional nodal agencies. These agencies will be accredited by APEDA.

**8) Announcements for Leather Exports :**

On the payment of 50 % applicable export duty, **Leather sector shall be allowed re-export of unsold imported raw hides and skins and semi finished leather** from public bonded ware houses.

**9) Announcements for Tea Exports:**

1. The existing Minimum value addition under advance authorisation scheme for export of tea is 100 %. **It has been reduced from the existing 100% to 50%.**
2. DTA (Domestic Tariff Area) sale limit of instant tea by EOU units increased from 30% to 50%.
3. Export of tea has been included under VKGUY Scheme benefits.

**10) Announcements for Pharma Exports :**

1. Export Obligation Period for advance authorizations issued increased from existing 6 months to 36 months.
2. Pharma sector included under MLFPS for countries in Africa and Latin America & some countries in Oceania and Far East.



**11) Announcements for Handloom Exports:**

The claims under Focus Product Scheme, the requirement of "Handloom mark" was required earlier. This has been removed.

**12) Scheme for Export Oriented Units:**

1. EOUs have been allowed to sell products manufactured by them in DTA (Domestic Tariff Area) upto a limit of 90% instead of existing 75%, without changing the criteria of 'similar goods', within the overall entitlement of 50% for DTA sale. (This means that instead of 75% these units can sell up to 90 % of their products in the domestic markets)
2. EOU allowed to procure finished goods for consolidation along with their manufactured goods, subject to certain safeguards.
3. Extension of block period by one year for calculation of Net Foreign Exchange earning of EOUs kept under consideration.
4. EOU allowed CENVAT Credit Facility.

**13) Easy Import of samples:**

- Number of sample pieces has been increased from the existing 15 to 50. This will facilitate the duty free import of samples by exporters.
- Convertibility of Shipping Bills Greater flexibility has been permitted to allow conversion of Shipping Bills from one Export Promotion scheme to other scheme. Customs shall now permit this conversion within three months, instead of the present limited period of only one month.

**14) Disposal of Manufacturing Wastes:**

1. Disposal of manufacturing wastes / scrap will now be allowed after payment of applicable excise duty also before fulfillment of export obligation under Advance Authorization and EPCG Scheme. Earlier it was allowed after fulfillment of export obligation.

**15) Set up of Directorate of Trade Remedy Measures Announced**

A Directorate of Trade Remedy Measures shall be set up, which will enable support to Indian industry and exporters, especially the Micro Small & medium Enterprises MSMEs in availing their rights through trade remedy instruments,

**TOPIC-2 : Export promotion & import substitution**

**Meaning of Export Promotion**

- 1) Export promotion has been defined as "those public policy measures which actually or potentially enhance exporting activity at the company, industry, or national level"
- 2) Government measures aim, normally, at an over all improvement of the export performance of the nation for the general benefit of the economy. Such measures help exporting firms in several ways.
- 3) The main goal of the export promotion is to prepare the "potential" industries for competition with the foreign rivals.



### Need of Export Promotion in India

#### Need of Export Promotion in India

- To Earn Foreign Exchange
- To Motivate Organisations to Export
- To Promote Interests of Indian Exporters and Keeping Commitment of WTO
- To Import Capital Goods
- To Reduce Bureaucratic Hurdles
- To Correct Unfavourable Balance of Trade
- To Reduce Foreign Loans
- To Achieve the Objective of Self-Reliance
- To Sell Surplus Production
- To Finance Imports
- For the Defence
- To contribute Economic Development of Country

**1) To Earn Foreign Exchange:** Every country in the world is trying to earn a share in the global trade. This is due to the lowering of trade barriers since the inception of the World Trade Organisation (WTO), increased import bills, and increased global competition in the domestic market. Also, most developing countries row heavily from financial institutions like the World Bank and the International Monetary Fund (IMF) and other sources to finance their developmental activities and reduce the balance of payment deficits. It is therefore imperative that the import bills as well as foreign loans be paid back in foreign exchange. In order to achieve this, earning foreign exchange through various export activities is the need of the hour.

**2) To Motivate Organisations to Export:** In order to motivate organizations to export and earn precious foreign exchange, governments offer certain incentives. These incentives help reduce the tax burden of the exporters and also achieve a competitive price- edge for their products in foreign markets.

**3) To Promote Interests of Indian Exporters and Keeping Commitment of WTO:** In India, the framework of export incentives in the form of duty exemption and remission schemes has been devised keeping in mind the interests of exporters as well as the commitments India has made to WTO. The Duty Exemption Scheme helps exporters import duty-free inputs required for manufacturing export products. The Duty Remission Schemes enable post-exports replenishment/remission of duty on inputs.

**4) To Import Capital Goods:** In addition to this, the Export Promotion Capital Goods (EPCG) scheme enables exporters to import capital goods at concessional rate of duty and suitable export obligation.

**5) To Reduce Bureaucratic Hurdles:** The incentives detailed above are available to all eligible exporters in India. In addition, the government has launched the very ambitious scheme of Special Economic Zones (SEZs) in order to reduce bureaucratic hurdles in importing inputs for exports and

exporting finished products from India. These SEZs are modeled on the highly successful Chinese Economic Zones. It is expected that the SEZs will be the engines of growth in international trade for India.

**6) To Correct Unfavourable Balance of Trade:** During the period of planning, except two years, all other years have witnessed unfavourable balance of trade. It not only reduced the foreign exchange reserves of India but also made it difficult to achieve plan targets. Successful completion of plans, therefore, calls for turning of unfavourable balance of trade into favourable one which requires increase in exports.

**7) To Reduce Foreign Loans:** India has to row large foreign funds to import essential machinery for economic and industrial development. Till March 2009, India had contracted foreign loans amounting to Rs 11, 42,618 crore. These loans are to be repaid one day. To pay interest and repay the principal amount of these loans, it is necessary that a policy of export promotion be adopted. Foreign exchange earned as a result of larger exports will be utilized for the repayment of foreign loans

**8) To Achieve the Objective of Self-Reliance:** One of the main objectives of Indian Plans is to make the country independent of foreign assistance. To achieve this objective, it is necessary to promote exports. By accelerating exports, large amount of foreign currency can be earned.

**9) To Sell Surplus Production:** During the period of planning, new industries have been set-up in India. In order to increase the sale of the products of these industries, their export is to be promoted. It becomes easy to increase exports under export promotion program.

**10) To Finance Imports:** Successful execution of the plans necessitates import of machines and other capital goods from abroad. To earn necessary foreign exchange to meet their import bills, it becomes necessary to increase exports.

**11) For the Defence:** Essential war equipments, weapons, aeroplanes, etc., are imported from advanced countries for our defence. To meet their cost, it is necessary to increase exports.

**12) To contribute Economic Development of Country:** Export promotion in terms of facilities and incentives can benefit the organisation in several ways which are as follows:

- i) When the domestic market is small, foreign market provides opportunities to achieve economies of scale and growth.
- ii) The supply of many commodities, as in the case of a number of agricultural products in India, is more than the domestic demand.
- iii) Exports enable certain countries to achieve export-led growth. Fourthly, export markets may help to mitigate the effects of domestic recession.
- iv) A country may need to boost its exports to earn enough foreign exchange to finance its imports and service its foreign debt. It may be noted that many countries are suffering from trade deficit and foreign debt.
- v) Even in the case of countries with trade surplus export promotion may be required to maintain its position against the international competition and the level of domestic economic activi

#### **Meaning of Import Substitution**

**1) Import substitution** industrialization (ISI) is a trade and economic policy that advocates replacing foreign **imports** with domestic production. ISI is based on the premise that a country should attempt to reduce its foreign dependency through the local production of industrialized products.

**2)** A method employed by a government to stimulate the economy by substituting domestic products for similar imported products. Import substitution may be encouraged through publicity campaigns, such as the "Buy American" campaign launched to decrease trade deficits in the United States, or enforced by means of tariffs and other trade barriers.

**TOPIC -3 :BALANCE OF PAYMENT**

**Meaning of BOP**

- 1) According to **Kindleberger**, "The balance of payments of a country is a systematic record of all economic transactions between the residents of the reporting country and residents of foreign countries during a given period of time".
- 2) The balance of payment record is maintained in a standard double-entry book-keeping method. International transactions enter in to the record as credit or debit. The payments received from foreign countries enter as credit and payments made to other countries as debit.

**Structure of Balance of Payment (BOP)**

Balance of Payment is a record pertaining to a period of time; usually it is an annual statement. All the transactions entering the balance of payments can be grouped under three broad accounts; (1) Current Account, (2) Capital Account, and (3) Official International Reserve Account. However, it can be vertically divided into many categories as per the requirement.

| <i>Receipts (Credits)</i>                           | <i>Payments (Debits)</i>                 |
|---|--|
| 1) Exports of goods                                 | 1) Imports of goods                      |
| <b>Trade Account Balance</b>                        |  |
| 2) Exports of services                              | 2) Imports of services                   |
| 3) Interests, profits and dividends received        | 3) Interests, profits and dividends paid |
| 4) Unilateral receipts                              | 4) Unilateral Payments                   |
| <b>Current Account Balance</b><br>(1 to 4)          |  |
| 5) Foreign Investments                              | 5) Investments abroad                    |
| 6) Short term borrowing                             | 6) Short term lending                    |
| 7) Medium and long term borrowing                   | 7) Medium and long term lending          |
| 8) Statistical discrepancy<br>(Errors and omission) |  |
| <b>Capital Account Balance</b><br>(5 to 8)          |  |
| 9) Change in reserves (+)                           | 9) Change in reserves                    |
| <b>Total Receipts = Total payments</b>              |  |

**1. Trade Account Balance**

It is the difference between exports and imports of goods, usually referred to as visible or tangible items. Till recently goods dominated international trade. Trade account balance tells us whether a country enjoys a surplus or deficit on that account. An industrial country with its industrial products comprising consumer and capital goods always had an advantageous position. Developing countries with its export of primary goods had most of the time suffered from a deficit in their balance of payments. Most of the OPEC countries are in a better position on trade account balance. The Balance of Trade is also referred to as the '**Balance of Visible Trade**' or '**Balance of Merchandise Trade**'.

**2. Current Account Balance**

It is the difference between the receipts and payments on account of the current account which includes trade balance. The current account includes export of services, interests, profits, dividends and unilateral receipts from abroad, and the import of services, interests, profits, dividends and unilateral payments to abroad. There can be either surplus or deficit in the current account. The deficit will take place when the debits are more than credits or when payments are more than receipts and the current account surplus will take place when the credits are more than debits.

**3. Capital Account Balance**

It is the difference between the receipts and payments on account of the capital account. The capital account involves inflows and outflows relating to investments, short-term borrowings/lending, and medium-term to long-term borrowing/lending. There can be surplus or deficit in the capital account. The surplus

will take place when the credits are more than debits and the deficit will take place when the debits are more than credits.

#### 4. Foreign Exchange Reserves

Foreign exchange reserves (Check item No.9 in above figure) shows the reserves which are held in the form of foreign currencies usually in hard currencies like dollar, pound etc., gold and Special Drawing Rights (SDRs). Foreign exchange reserves are analogous to an individual's holding of cash. They increase when the individual has a surplus in his transactions and decrease when he has a deficit. When a country enjoys a net surplus both in current account & capital account, it increases foreign exchange reserves. Whenever current account deficit exceeds the inflow in capital account, foreign exchange from the reserve accounts is used to meet the deficit. If a country's foreign exchange reserves rise, that transaction is shown as minus in that country's balance of payments accounts because money is been transferred to the foreign exchange reserves.

Foreign exchange reserves (forex) are used to meet the deficit in the balance of payments. The entry is in the receipt side as we receive the forex for the particular year by reducing the balance from the reserves. When surplus is transferred to the foreign exchange reserve, it is shown as minus in that particular year's balance of payment account. The minus sign (-) indicates an increase in forex and plus sign (+) shows the borrowing of foreign exchange from the forex account to meet the deficit.

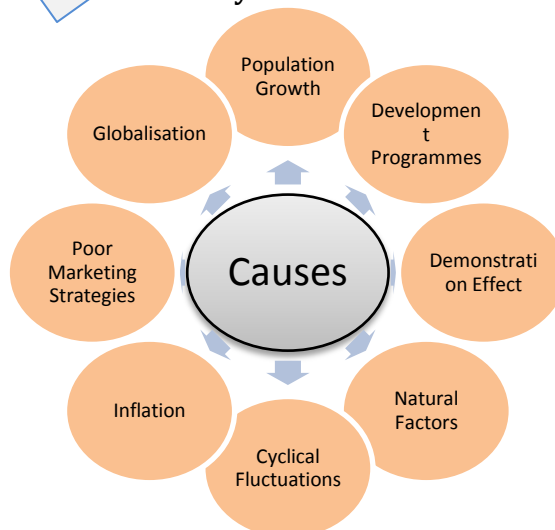
#### 5. Errors and Omission

The errors may be due to statistical discrepancies & omission may be due to certain transactions may not be recorded. For eg: A remittance by an Indian working abroad to India may not yet recorded, or a payment of dividend abroad by an MNC operating in India may not yet recorded or so on. The errors and omissions amount equals to the amount necessary to balance both the sides.

#### Meaning of Disequilibrium in BOP

- 1) Disequilibrium in BOP takes place when debit exceeds credit or the credit exceeds debit causing an imbalance in the balance of payment account. Such an imbalance is called the disequilibrium. Disequilibrium may take place either in the form of deficit or in the form of surplus.
- 2) Disequilibrium of **Deficit** arises when our receipts from the foreigners fall below our payment to foreigners. It arises when the effective demand for foreign exchange of the country exceeds its supply at a given rate of exchange. This is called an 'unfavourable balance'.
- 3) Disequilibrium of **Surplus** arises when the receipts of the country exceed its payments. Such a situation arises when the effective demand for foreign exchange is less than its supply. Such a surplus disequilibrium is termed as 'favourable balance'.

#### Causes of Disequilibrium in Balance of Payment





- 1) **Population Growth:** Most countries experience an increase in the population and in some like India and China the population is not only large but increases at a faster rate. To meet their needs, imports become essential and the quantity of imports may increase as population increases.
- 2) **Development Programmes:** Developing countries which have embarked upon planned development programmes require to import capital goods, some raw materials which are not available at home and highly skilled and specialized manpower. Since development is a continuous process, imports of these items continue for the long time landing these countries in a balance of payment deficit.
- 3) **Demonstration Effect:** When the people in the less developed countries imitate the consumption pattern of the people in the developed countries, their import will increase. Their export may remain constant or decline causing disequilibrium in the balance of payments.
- 4) **Natural Factors:** Natural calamities such as the failure of rains or the coming floods may easily cause disequilibrium in the balance of payments by adversely affecting agriculture and industrial production in the country. The exports may decline while the imports may go up causing a discrepancy in the country's balance of payments.
- 5) **Cyclical Fluctuations:** Business fluctuations introduced by the operations of the trade cycles may also cause disequilibrium in the country's balance of payments. For example, if there occurs a business recession in foreign countries, it may easily cause a fall in the exports and exchange earning of the country concerned, resulting in a disequilibrium in the balance of payments.
- 6) **Inflation:** An increase in income and price level owing to rapid economic development in developing countries, will increase imports and reduce exports causing a deficit in balance of payments.
- 7) **Poor Marketing Strategies:** The superior marketing of the developed countries have increased their surplus. The poor marketing facilities of the developing countries have pushed them into huge deficits.
- 8) **Globalisation:** Due to globalization there has been more liberal and open atmosphere for international movement of goods, services and capital. Competition has been increased due to the globalization of international economic relations. The emerging new global economic order has brought in certain problems for some countries which have resulted in the balance of payments disequilibrium

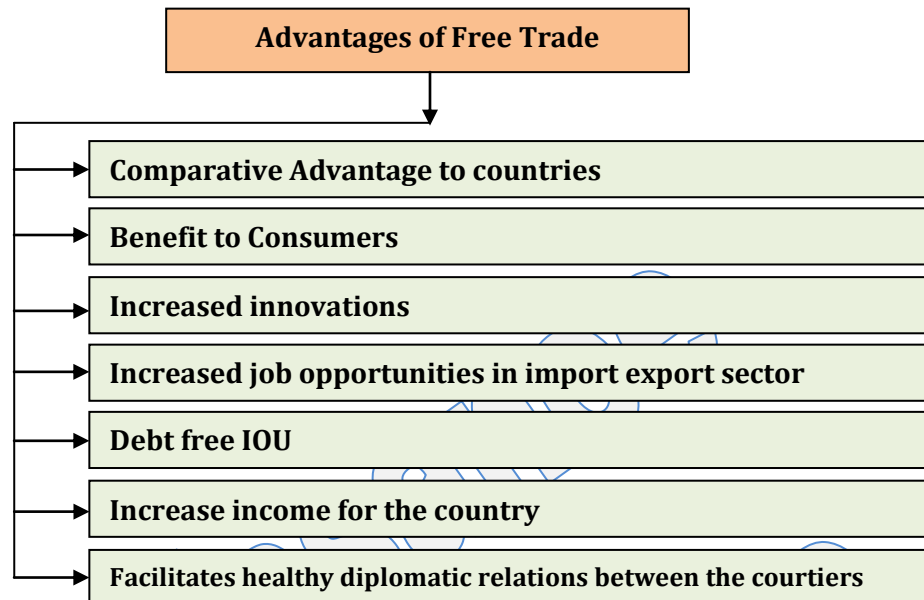
#### TOPIC -4 : FREE TRADE& PROTECTIONISM

##### **Meaning of free Trade**

- 1) **According to Adam Smith**, the term 'free trade' is used to denote 'that system of commercial policy which draws no distinction between domestic and foreign commodities and, therefore, neither imposes additional burdens on the latter, nor grants any special favor to the former.'
- 2) In other words, free trade implies complete freedom of international exchange. Under such policy, there are no barriers to the movement of goods between countries and exchange can take its perfectly natural course.
- 3) A trade policy of placing no restrictions on the movement of goods between countries is known as the policy of 'Free Trade.' Such a policy permits the flow of international commerce in its natural environment, free of artificial impediments.
- 4) Free trade is the term given to trade between nations that takes place without the imposition of barriers in the form of tariffs, quotas or other measures by governments or international organizations.



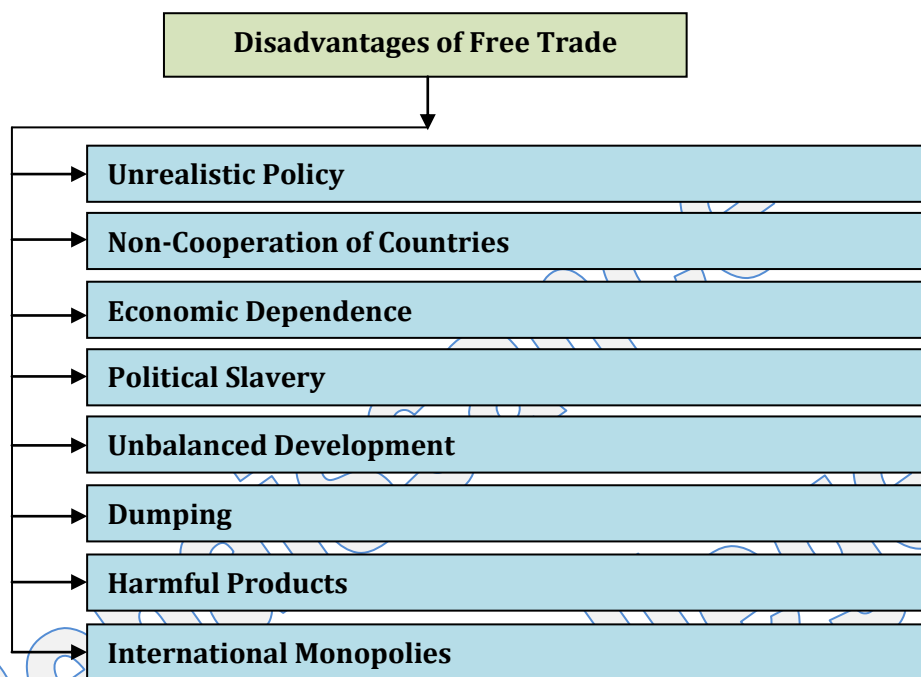
### Advantages of Free Trade



- 1) **Comparative Advantage to countries:** It permits an allocation of resources and manpower in accordance with the principle of comparative advantage, which is just an extension of the principle of division of labour. Because of natural and other facilities, each country is suited for the production of some particular commodities.
- 2) **Benefit to Consumers:** Because free trade leads to a global market, consumers benefit from the competition and variety brought to the market. When other countries produce some items cheaper, the consumer purchases products for less. As the U.S. has lowered its trade restrictions, the gross domestic product has risen. Since consumers can purchase quality products for cheaper, they have more expendable income.
- 3) **Increased innovations:** Another benefit to consumers is increased innovations. As free trade expands, competition also expands. To stay competitive, companies must seek ways to create the comparative advantage. This leads to increased innovation that improves products.
- 4) **Increased job opportunities in import export sector:** Although free trade may cause jobs in one particular industry to wind up overseas, jobs in the exporting and importing sides will increase. When productivity increases in importing and exporting, wages also tend to rise.
- 5) **Debt free IOU:** When a country purchases a product from another country with money, they essentially send the exporting country non-interest IOUs in exchange for real goods. The exporting country, though, must use the money within the country that imported the products. For example, the United States purchases steel from China with U.S. money at the current market value. China will later use the U.S. money to purchase computer programs from the United States at the future market value.
- 6) **Increase income for the country :** Countries that open their trade barriers to allow free trade have the chance to enter the global market, which will increase income for the country. In the 1990s, developing countries that lifted trade restrictions tended to grow three times faster than countries that restricted trade.
- 7) **Facilitates healthy diplomatic relations between the courtiers:** Countries with stringent trade restrictions often cause animosity with other countries. Therefore, the country with the restrictions also limits its own ability to export. When a country removes their trade restrictions, other countries are more willing to accept the exports. As countries work together professionally,

mutual respect for the countries' customs and cultures increase. Fears and prejudices diminish, and countries are less likely to fight each other.

### Disadvantages of Free Trade



**1. Unrealistic Policy:** Free trade policy is based on the assumption of laissez-faire or government non-intervention. Its success also requires the pre-condition of perfect competition. However, such conditions are unrealistic and do not exist in the actual world.

**2. Non-Cooperation of Countries:** Free trade policy works smoothly if all the countries cooperate with each other and follow this policy. If some countries decide to gain more by imposing import restrictions, the system of free trade cannot work.

**3. Economic Dependence:** Free trade increases the economic dependence on other countries for certain essential products such as food, raw materials, etc. Such dependence proves harmful particularly during wartime.

**4. Political Slavery:** Free trade leads to economic dependence and economic dependence leads to political slavery. For political freedom, economic independence is necessary. This requires abandonment of free trade.

**5. Unbalanced Development:** Free trade and the resultant international specialisation lead to unbalanced development of national economy. Under this system, only those sectors are developed in which the country has a comparative advantage. Other sectors remain undeveloped. This results in lop-sided development.

**6. Dumping:** Free trade may lead to cutthroat competition and dumping. Under dumping, goods are sold at very cheap rates and even below their cost of production in order to capture the foreign markets.

**7. Harmful Products:** Under free trade, injurious and harmful products may be produced and traded. Trade restrictions are necessary to check the import of such products.

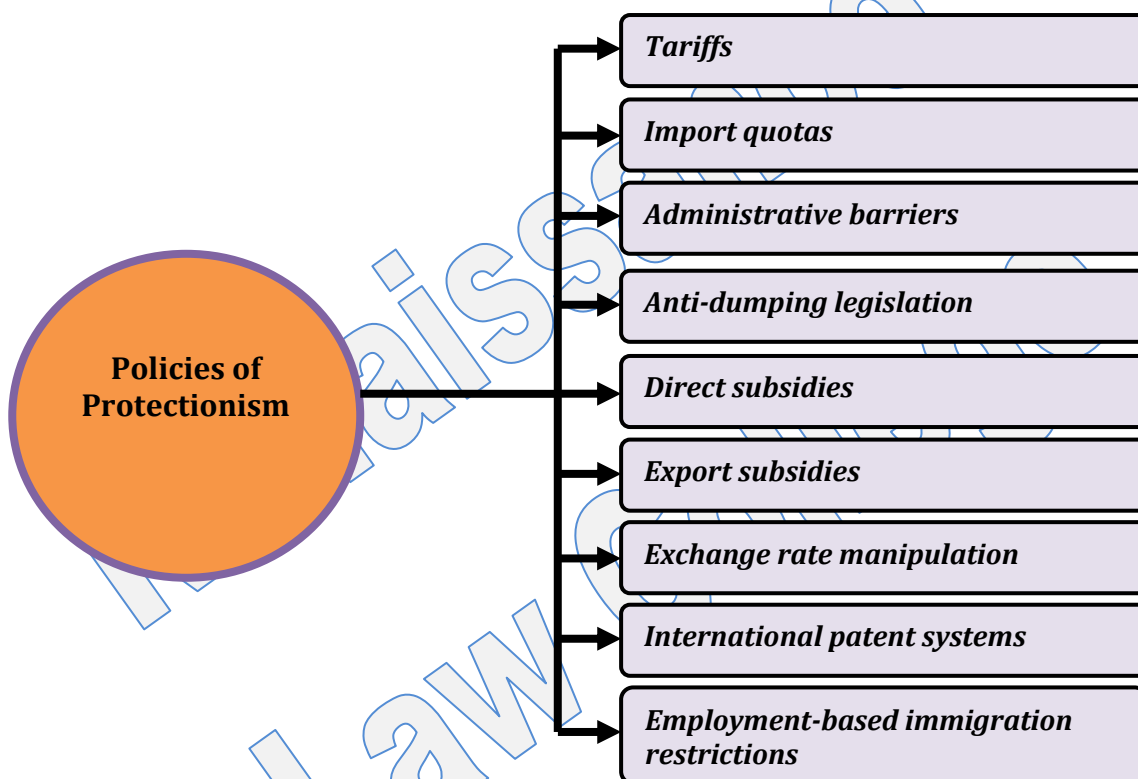
**8. International Monopolies:** Free trade may lead to international monopolies. It encourages the establishment of multinational corporations. These corporations tend to acquire monopoly position and thus harm the interest of the local people.

### Meaning of Protectionism

- 1) **Protectionism** is the economic policy of restraining trade between states (countries) through methods such as tariffs on imported goods, restrictive quotas, and a variety of other government regulations designed to allow (according to proponents) fair competition between imports and goods and services produced domestically
- 2) **Protectionism** refers to policies or doctrines which protect businesses and workers within a country by restricting or regulating trade with foreign nations

### Policies of Protectionism

A variety of policies have been used to achieve protectionist goals. These include:



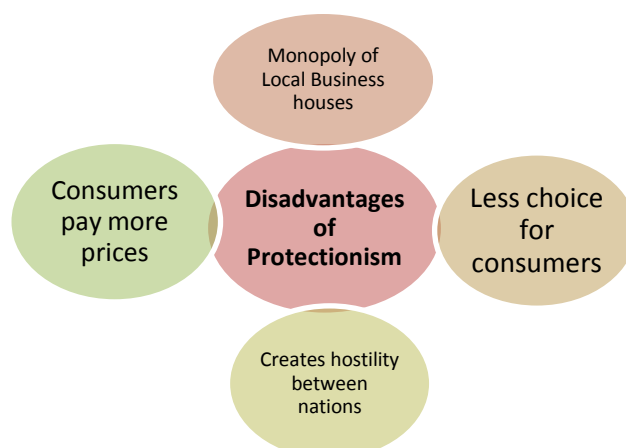
1. **Tariffs:** Typically, tariffs (or taxes) are imposed on imported goods. Tariff rates usually vary according to the type of goods imported. Import tariffs will increase the cost to importers, and increase the price of imported goods in the local markets, thus lowering the quantity of goods imported, to favour local producers.
2. **Import quotas:** To reduce the quantity and therefore increase the market price of imported goods. The economic effects of an import quota is similar to that of a tariff, except that the tax revenue gain from a tariff will instead be distributed to those who receive import licenses. Economists often suggest that import licenses be auctioned to the highest bidder, or that import quotas be replaced by an equivalent tariff.
3. **Administrative barriers:** Countries are sometimes accused of using their various administrative rules (e.g. regarding food safety, environmental standards, electrical safety, etc.) as a way to introduce barriers to imports.
4. **Anti-dumping legislation:** Supporters of anti-dumping laws argue that they prevent "dumping" of cheaper foreign goods that would cause local firms to close down. However, in practice, anti-dumping laws are usually used to impose trade tariffs on foreign exporters.

5. **Direct subsidies:** Government subsidies (in the form of lump-sum payments or cheap loans) are sometimes given to local firms that cannot compete well against imports. These subsidies are purported to "protect" local jobs, and to help local firms adjust to the world markets.
6. **Export subsidies:** Export subsidies are often used by governments to increase exports. Export subsidies have the opposite effect of export tariffs because exporters get payment, which is a percentage or proportion of the value of exported. Export subsidies increase the amount of trade, and in a country with floating exchange rates, have effects similar to import subsidies.
7. **Exchange rate manipulation:** A government may intervene in the foreign exchange market to lower the value of its currency by selling its currency in the foreign exchange market. Doing so will raise the cost of imports and lower the cost of exports, leading to an improvement in its trade balance. However, such a policy is only effective in the short run, as it will most likely lead to inflation in the country, which will in turn raise the cost of exports, and reduce the relative price of imports.
8. **International patent systems:** There is an argument for viewing national patent systems as a cloak for protectionist trade policies at a national level.
9. **Employment-based immigration restrictions,** such as labor certification requirements or numerical caps on work visas.

#### Advantages of Protectionism

- 1) **Keeps the domestic economy rolling:** An advantage of protectionism is that it keeps the domestic economy rolling. Since there is a decrease in imports, domestic firms have less competition, and so are able to continue.
- 2) **Reduction in Domestic unemployment:** The domestic economy will also be strengthened because unemployment will be down due to the domestic firms and they will be able to produce and sell more goods with a lot less difficulty, giving firms less reason to decrease its costs by decreasing its workforce. Those with jobs will continue to consume while allowing the economy to flow.
- 3) **Encourages domestic entrepreneurship:** Protectionism permits the new and upcoming firms to work and develop at an acceptable rate, because they will not be pressured by foreign, more experienced firms. The new firms can grow until they themselves are big enough to compete in international markets, encouraging positive features for the domestic economy in the future.
- 4) **Protection from dumping:** Protectionism can also prevent dumping, this is where foreign and bigger economies enter an economy and sell their goods at a price lower than the costs of production. Therefore, the consumers of that specific economy are spending more than the consumers in overseas areas.

#### Disadvantages of Protectionism



- 1) **Consumers pay more prices:** Consumers pay more with protectionism. Without a system of competitive pricing, domestic companies are free to raise their prices without raising the quality of their goods. When a business has no competition then the consumer is left without options.
- 2) **Monopoly of Local Business houses:** Businesses suffer from protectionism too. Government support often builds corporate contentment, which could lead to a business to believe that it has a pleasant safety net set up behind it in the event of strong foreign competition as these businesses might not have the resources necessary to survive on their own.
- 3) **Less choice for consumers:** Trade protectionism limits consumer access to foreign goods and non-domestic companies that offer unique products and services are also subject to the restrictions. The consumer ends up paying higher prices for a limited variety of products that are not always worth their
- 4) **Creates hostility between nations:** Protectionism can cause a retaliation reaction from other nations, ruining vital relationships between nations. a clear example of this would be the relationship between USA and China, when the US put boundaries on the Chinese tires , China retaliated by putting up barriers against different U.S. goods such as their chicken. This kind of hostility between nations decreases the specialization between two nations, eventually damaging the economy.

**Conclusion:**

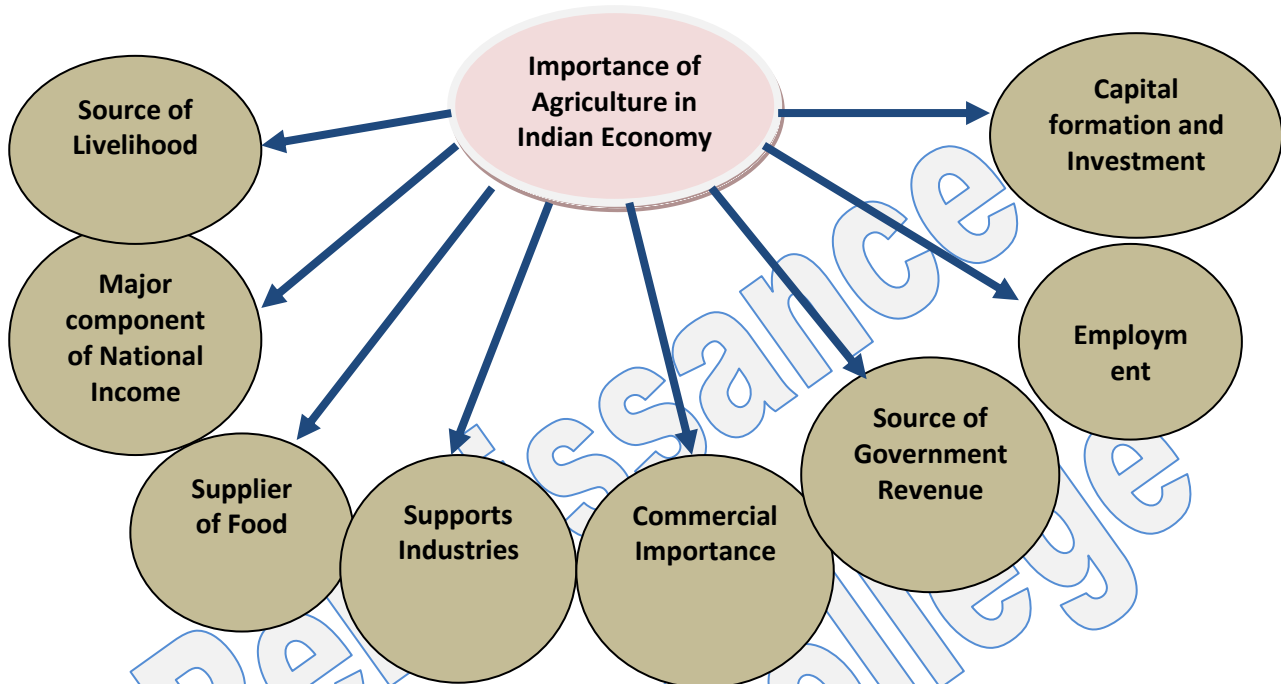
The history of trade development shows that protectionism and free trade policies were replaced to correspond to a certain economic situation in the world. However, there has been apparent shift to open markets, decreased trade barriers and international cooperation among countries in the last few decades. With all of this said, the impact of recent economic slowdown pushed many countries to stray from free trade agreements in order to support domestic economies and employment.



**Unit 5: Agricultural Economics**

**Topic-1 :Basic characteristics of agriculture in an underdeveloped economy**

**Importance of Agriculture in Indian Economy**



The place of pride that agriculture occupies in the economy of the country is clearly brought out by the following facts:

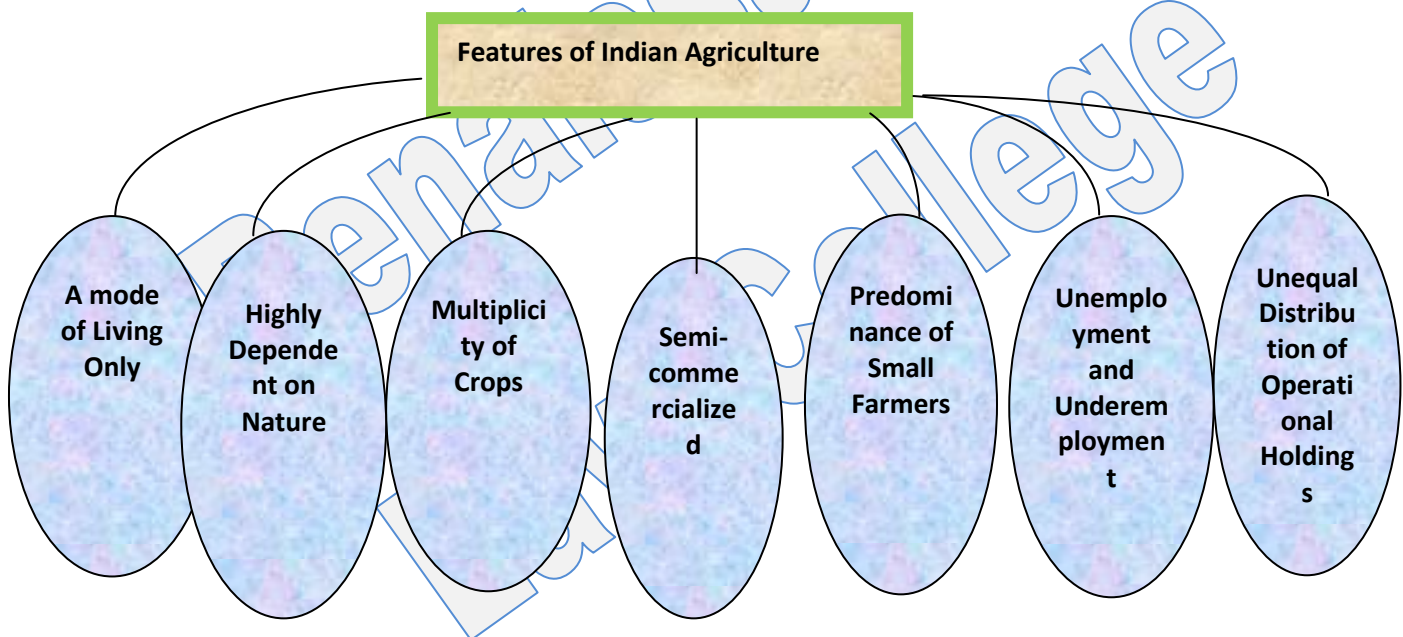
- 1) **Source of Livelihood**—About two-third (65 percent) of our working population is engaged directly in the cultivation of land and, when we take into account the people who are indirectly dependent upon agriculture, the ratio rises to more than even three-four.
- 2) **Major component of National Income**—The contributory share of agriculture in GDP was 55.4% in 1950-51. Even after more than fifty years of economic planning, which laid so much emphasis on industry, agriculture production was as high as 20 percent of the net home production of the Indian Union in the year 2005-06. Although there has been a falling trend in this respect, yet even at present, the share of agriculture in the country's national income is very much higher than in developed countries
- 3) **Supplier of Food**—It is agriculture that feeds the country's population. There is no doubt that during the last three decades, it failed to meet our food requirements fully and we have had to rely on heavy annual food imports to feed our teeming millions. All the same, the total value of food grains produced in the country would come to a very large figure, imports constituting on an average only 2 percent of the total food requirements of the country. Lately, we have become self-sufficient.
- 4) **Supports Industries**—Agriculture feeds not only the population but her manufacturing industries too with raw materials. Cotton and jute textiles, sugar, vanaspati and plantation industries (viz., tea, coffee, rubber), are few examples. It has been estimated that these and other agro-based industries, together roughly account for nearly one-half of the total income, generated in the manufacturing sector in the country.
- 5) **Commercial Importance**—It is the agricultural raw materials which constitute the main articles of India's internal and external trade. Some of the leading exports from the country have been jute goods, tea, oil cakes, tobacco, spices, coffee, etc. By exporting them, it has been

possible to import in turn the much-needed machinery and manufactured goods. Agriculture and related goods contribute about 38% in total exports of the country.

- 6) **Source of Government Revenue**—Agriculture is one of the main sources of revenue for the Government, especially for the State Governments. Not only does the Government get a substantial income from land revenue but the prosperity of the railways and income from many other sources is dependent on favorable agriculture. Indeed, a bad agricultural year is a year all round both for the Government and for the people.
- 7) **Employment**—Agriculture provides employment and work to an overwhelming majority of the Indian masses. According to the population census of 1991, 64.8% of the total main workers in India were engaged in agriculture.
- 8) **Capital formation and Investment**—Since agriculture contributes about 28% of national income in real terms, this sector is the primary source of savings and hence the capital formation for the economy.

### Features of Indian Agriculture

Following are the main features of Indian agriculture –



- 1) **A mode of Living Only** – Agriculture is a mode of living rather than a business proposition for the Indian farmer. In other countries it is a business proposition for those who adopt it. In India people are pushed to it, while in other countries they are pulled towards it. That is the basic difference.
- 2) **Highly Dependent on Nature**—The dependence of agriculture on nature is generally much greater in India than in the case of other countries. In India, agriculture, even today, is a gamble in monsoon which is uncertain and irregular. In the absence of adequate irrigation facilities, about 61.3% of the total cropped area in India depends on rainfall, while 38.7% was irrigated in 1997-99.
- 3) **Multiplicity of Crops**—Indian agriculture is known for its large variety of crops. In other words, India's agriculture is multicultural in contrast to mono-cultural or bi-cultural in some underdeveloped economies of the world.
- 4) **Semi-commercialized**—Indian agriculture is neither a purely subsistence farming nor a purely commercialized one, but a mixture of the two, i.e., it is semi-commercialized. A subsistence

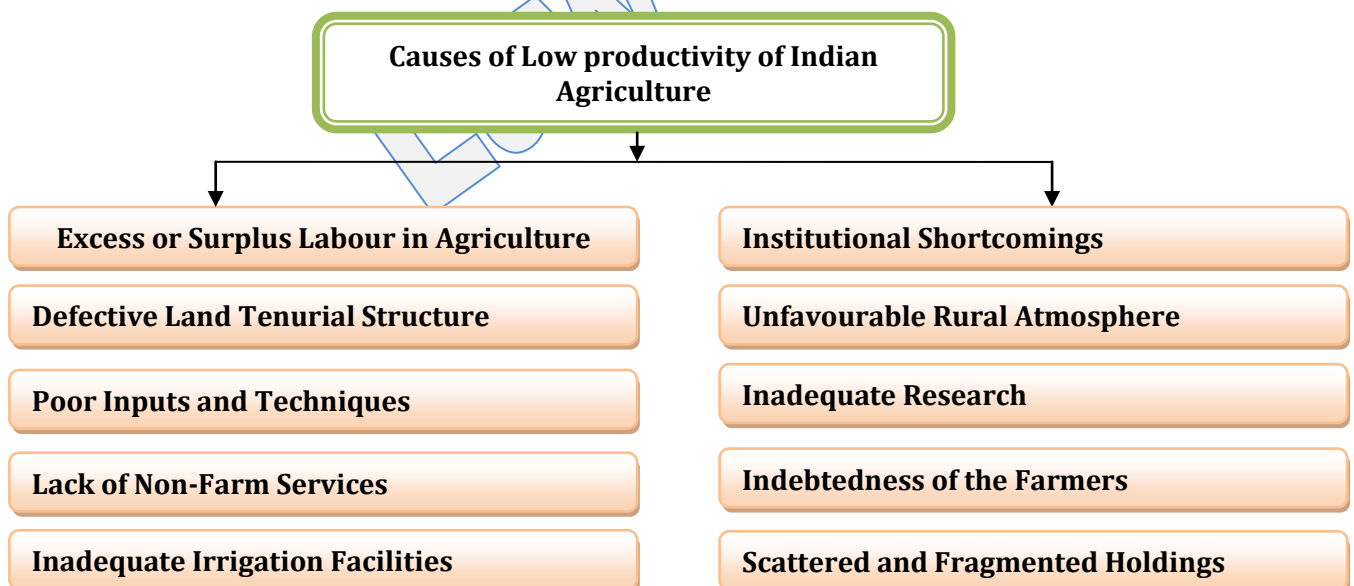
farming is one in which land is cultivated for producing goods or farmer's own consumption, rather than for sale in the market.

- 5) **Predominance of Small Farmers**—Large number of cultivators in the country consists of small farmers. This is particularly due to the backward nature of Indian agriculture and the rapidly growing population which leads to subdivision and fragmentation of holdings.
- 6) **Low Level of Productivity**—The productivity of labour in Indian agriculture is miserably low. Indian fanner has been known all over the world for his low level of productivity. This is the main cause of his poverty. Per hectare productivity of wheat, rice, cotton, sugarcane and other crops in India is low as compared with other countries in the world.
- 7) **Unequal Distribution of Operational Holdings**—The distribution of land in India is characterized by large inequalities. A few persons hold large areas of land and a very large number of people have no land or very little land. As per the agricultural census of 1990.91, nearly 59V holdings of less than 1 hectare each (i.e., marginal holdings) had 14.9% o the cultivated area under them, while 1.6% holdings of 10 hectares and above (i.e., large holdings) had 17.4% of the cultivated area under them.
- 8) **Unemployment and Underemployment in Agriculture**—Yet another dominant feature of Indian agriculture is the presence of large-scale chronic unemployment and underemployment. Except a few areas of the country where irrigation facilitates two crops in a year, agriculturists are unemployed during the off-season, which in many parts of the country spreads over as many as 200 days in a year.

The various features of agriculture as explained above, when put together, point to the obvious conclusion that this important sector of the economy is very weak and suffer from several shortcomings.

### **Topic -2 Causes of Low productivity of Indian Agriculture**

The factors responsible for low agricultural productivity or for the backwardness of Indian agriculture are as follows:

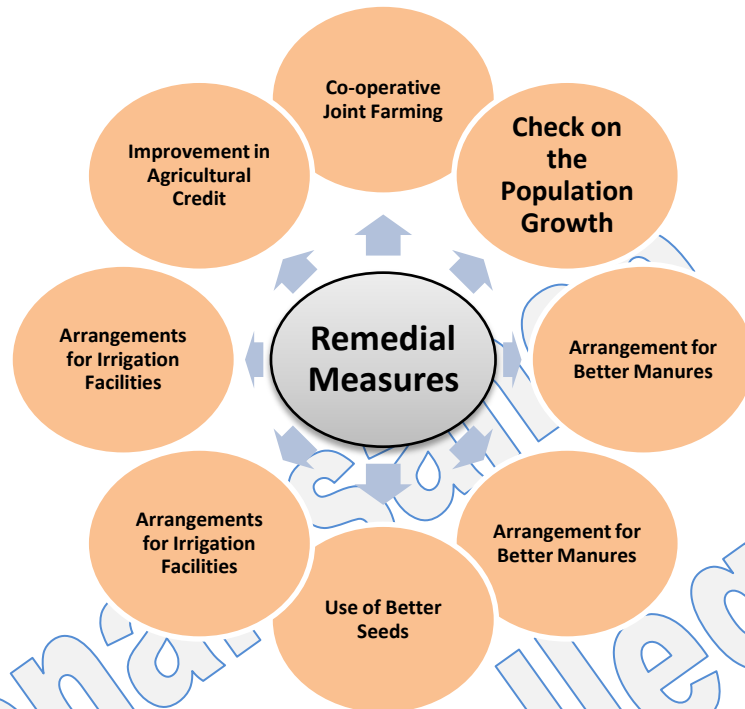


- 1) **Excess or Surplus Labour in Agriculture** – The main cause for the low agricultural labour productivity is the overcrowding in agriculture. There are too many people who depend on agriculture. As the population increases, the pressure of population on land also increases, because the natural increase in population is not absorbed by the industrial sector. The area sown per capita comes to only 0.17 hectare in India in 1994-96. Thus, the pressure on land leads to small uneconomic and fragmented holdings.
- 2) **Defective Land Tenurial Structure**—The land tenurial system in India had been exploitative and disincentive-ridden for the farmer. It has built in features to support stagnation. The main features have been; the presence of intermediaries; exploitative owner-tenant relationship; small and fragmented holdings and the heavy and ever-increasing pressure of population on land.
- 3) **Poor Inputs and Techniques**—The methods and techniques of cultivation have been old, outdated and inefficient. They result in high cost and low productivity.
- 4) **Lack of Non-Farm Services**—An efficient and progressive agriculture requires various non-farm services, such as, marketing, credit, warehousing, raga and storage. All these facilities are inadequate in India.  
Marketing system is defective and costly. Transport facilities are inadequate and inefficient. Modern warehousing is inadequate and storage methods are defective and costly. Modern credit facilities are still poorly developed.
- 5) **Inadequate Irrigation Facilities**—One of the basic causes for the backwardness of Indian agriculture has been that the farmers throughout the country have to depend upon rainfall and very few of them can take advantage of the facilities of irrigation. Even at present about 39% cropped area is irrigated and 61% depends on rainfall. Thus, even today Indian agriculture is highly unstable and uncertain.
- 6) **Institutional Shortcomings**—One of the causes of low productivity in agriculture is the defective tenurial system. Till recently the Zamindar System held the tiller of the soil in its clutches. The tillers of the soil had to pay heavy rents and were always under the threat of eviction.
- 7) **Unfavourable Rural Atmosphere**—The Indian farmers, generally speaking, are illiterate, conservative and bound by outmoded customs and institutions, such as, the caste system and the joint family system.
- 8) **Inadequate Research**—Benefits of research and development have not reached at the door of the farmers and they are not in an applicable form. Extension is confined to individual good practices and the modern farming methods have yet to take roots in the countryside.
- 9) **Indebtedness of the Farmers**—It is said that the farmers in India; are born in debt, live in debt, die in debt, and leave debt behind. The cause: of their indebtedness are many, such as, hereditary debts, litigation, want of supplementary incomes from cottage industries and wasteful social expenditure on occasions of deaths and marriages.
- 10) **Scattered and Fragmented Holdings**—The average size of the holding in India, is very low, which is less than 2 hectares. It was 1.57 hectare in 1990-91. The existence of small holdings is one of the causes for poor agricultural yield. Due to increase in population, and the laws of inheritance the holdings have been divided and subdivided into small plots during successive generations. The result is that the size of holdings has become too small for economic farming. Besides, the holdings are scattered. This makes cultivation still more uneconomical due to wastage of time and energy as the farmer has to move from one plot to the other with his plough and pair of bullocks.



### Remedial Measures

Following remedial measures should be taken in order to solve the various problems of Indian agriculture:



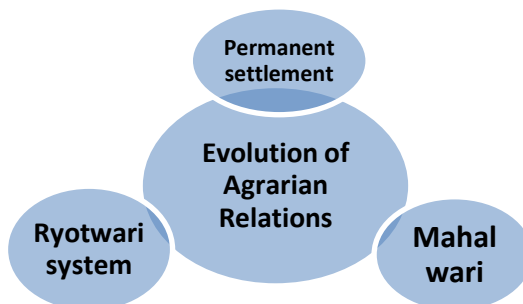
- 1) **Co-operative Joint Farming**—Small uneconomic plots can be pooled to make a fair-sized big farm to make farming an economic mullion. In recent years the emphasis on cooperative joint farming has practically vanished altogether. Hence the prospects have become rather bleak in this respect.
- 2) **Check on the Population Growth**—The pressure of population on hidden soil is constantly increasing. Family planning, by checking population, will save the holdings from further subdivision and will also raise the standard of living of the farmer. It will increase their capacity of more private Investment in agriculture.
- 3) **Arrangement for Better Manures**—The farmers should be acquainted with the benefits of chemical and improved manures through exhibitions and Model farms and better manures should be made easily available in the villages through the Panchayats, Gram Sabhas and Cooperative Societies.
- 4) **Improvement in Cattle**—The cattle have a special importance in Indian agriculture. Hence the breed of cattle should be improved and proper arrangements should be made for the supply of adequate fodder and medical treatment of sick cattle
- 5) **Use of Better Seeds**—Agriculture experts are of the view that farm output can be increased substantially by use of better seeds. The Agricultural Research Institutes should discover seeds of high genetic quality and the Agricultural Departments should make proper arrangements for their distribution among the farmers.
- 6) **Arrangements for Irrigation Facilities**—The irrigation facilities are absolutely essential for stabilising Indian agriculture. Hence tubewell and canal irrigation should be spread all over the country.
- 7) **Arrangements for Spreading Literacy Amongst Farmers**—Adult education programmes should be started in the villages to spread literacy in the rural areas and among the farmers. Literacy will help the farmers to give up the age-old traditions and practices and develop now and progressive ideas that are urgently required for agricultural progress.



- 8) **Improvement in Agricultural Credit**—Agricultural Co-operative Credit Societies should be set up in rural areas to advance loans to the farmers at low rates of interest. Its result will be that the farmers will be saved from falling into the clutches of the village mahajans and they will be in a position to increase agricultural output.
- 9) **Reclamation of Waste lands and Barren lands**—At present, large areas of land are lying waste in our country, which can be reclaimed and made fit for agriculture. The development of wastelands will increase employment opportunities as well. Plans for wasteland development should be prepared and arrangements should be made for their funding on an adequate scale.
- 10) **Consolidation of Holdings**—In order to solve the problem of fragmentation of holdings, it is essential to maintain the present economic holdings and to make their division in future difficult. Co-operative joint tanning should be undertaken after consolidation of holdings and the ceilings on agricultural holdings should be fixed. But there must be strong political will to implement land legislation in this respect.
- 11) **Use of New Implements**—In order to improve agriculture, it is also essential to popularise the use of new implements. The advantages of these implements should be explained to the farmers and they should be made available to them.
- 12) **Transport Facilities in the Rural Areas**—The provision of transport facilities in the rural areas will enable the farmers to take their produce to the markets, which will bring the better price and increase their aggregate incomes and investible surpluses.
- 13) **Soil Conservation**—Steps should be taken to check soil erosion. This will improve agriculture in India by saving large areas of land from going of cultivation due to soil erosion.
- 14) **Intensive Cultivation**—As compared to population, land is limited in India. The agricultural holdings are small and scattered. Thus, in areas where mechanized agriculture is not possible, intensive cultivation should be undertaken.
- 15) **Development of Cottage Industries**—The cottage industries should be developed in the rural areas. More emphasis should be placed on cottage industries which are allied to agriculture. These cottage industries will increase the income of the farmers and also keep them engaged in productive work during the off-season.
- 16) **Improvement in the Marketing System**—It is very essential to improve the marketing system of agricultural produce. Co-operative Marketing Societies should be set up, and the villages should be linked with the cities by developing roads more adequately.
- 17) **Improvement in the Health of the Farmers**—In order to improve agriculture, it is essential that the health of the farmers should be improved. There should be suitable medical facilities in each village. The water-logged land should be drained properly. These measures will improve the health of the farmers and consequently increase their productive capacity.

**Topic 3: Evolution of Agrarian Relations( Permanent settlement, Mahalwari & Ryotwari system)**

**What is Agrarian Relations :** Since land is the primary means of production in agriculture, the form of land property is the basis of agrarian relations. The nature of agrarian relations is determined by the nature of landownership and land tenure. Agrarian relations change as conditions of landownership and land tenure change.



**1) Permanent settlement or zamindari system:**

**Introduction:** Cornwallis, who followed Warren Hastings, as Governor General of Bengal was sent with specific instructions to improve the land revenue to be collected from Bengal. The British Parliament by an Act of 1784 directed the Court of directors to give up the practice of annual settlement of revenue to be collected and to fix up the collection of revenue of land on a permanent basis. Cornwallis appointed an inquiry committee under the headship of Sir John Shore and asked him to inquire about the usages, tenures and rents of land revenue collection in pre-colonial India.

Sir John Shore submitted his report in 1789. On the basis of the report, Cornwallis introduced land revenue settlement for ten years with Zamindars in 1789 but the same was made permanent in 1793 by the proclamation of Cornwallis and it was known as Permanent Land Revenue settlement.

**Basic Features:**

The basic features of the settlement were as follows:

1. The Zamindars were made hereditary owners of the land under their possession. They and their successors exercised total control over lands.
2. The Zamindars could sell and purchase lands.
3. The state had no direct contact with the peasants.
4. The company's share in the revenue was fixed permanently with the Zamindars.
5. Thus the Permanent Land Revenue settlement involved three parties, the government, the Zamindar and the 'ryot' or the cultivator. As per this settlement, the role of the government and the Zamindar is fixed but the role of the ryot is not at all defined and the ryot is put at the mercy of the Zamindar and thus ryot is the worst effected due to this settlement.

**Merits and Demerits of the permanent Settlement system:**

**Merits:**

- 1). One of the aims of the Permanent Settlement was to stabilize the income of the government. And in this respect the Permanent Settlement was successful.
- 2). The governmental income was not only stabilized but it was also sure of the amount of its yearly income. On the basis of the income the government could prepare the yearly budget.

**Demerits:**

- 1). It may be said that the Permanent Settlement did not benefit any one of those for whom it was devised. In the first place, in ultimate analysis the Permanent Settlement adversely affected the interests of the government. As the settlement was made on a permanent basis there was no scope for revision of the amount of revenue by the government.
- 2). Secondly, in return for a fixed government demand the zamindars were deprived of many powers and privileges enjoyed by them previously.
- 3). Thirdly, the Permanent Settlement required the payment of the yearly revenue by the zamindar on or before the sun-set of a particular day. Failure to pay the money deprived the zamindar of his estates. Owing to the stringent sun-set laws many of the traditional zamindars lost their estates within a very short time of the operation of the Permanent Settlement.
- 4). Fourthly, the Permanent Settlement totally ignored the interests of the ryots or tenants. Since the zamindars now became the owners of land oppression of the ryots by zamindars increased manifold. A large section of ryots (tenants) were dispossessed of their land to become landless labourers.

Thus, the permanent settlements proved harmful to all parties concerned and as such it was not introduced in other parts of India except northern circars in the south and in the districts of Benaras in the

north.

**2) Mahalwari system:**

1). The word Mahalwari is derived from the term Mahal, referring to a neighbourhood or quarter. Under this system the unit for revenue settlement is the village. The village lands belong jointly to the village community technically called the body of co-shares. The body of co-shares is jointly responsible for the payment of land revenue, though individual responsibility is always there. If any co-sharer abandons his land, it is taken over by the village community as a whole. The village community is the owner of village common land area, including the forestland, pastures etc. However, the Mahalwari system of land revenue was prevalent in northern part of India.

2). In the Mahalwari system, people from the company went from the village to village inspecting the land, measuring the fields and recording the rights and customs of the different groups there. The, the estimated revenue for each plot of land within the village was divided up to calculate how much each villager would pay. This payment was given to the headman of the village and then given as revenue to the company. This form of payment, however, was not fixed like that of Permanent Settlement, but it was revised periodically from year to year.

3). Under the Mahalwari System, the recommendation, the survey of land, preparation of the records of rights in land, settlement of the land revenue, demand in the Mahals, and the collection of the land revenue was done through the village headman or Lambardar. Regulation VII of 1822 gave the legal sanction to these recommendations. Under the Mahalwari Settlement, the land revenue was fixed on the basis of 80 % of the rental value, payable by the Zamindars. In cases where estates were not held by the landlords, but by the cultivators in common tenancy, the state demand was allowed to be fixed at 95 % of the rental. The system broke down because of the excessive state demand and rigidity in its working and collection of land revenue.

**3) Ryotwari system:**

1). The ryotwari system, instituted in some parts of British India, was one of the two main systems used to collect revenues from the cultivators of agricultural land. These revenues included undifferentiated land taxes and rents, which were collected simultaneously

2). Under the Ryotwari system of land revenue settlement, every registered landowner were called proprietor. These proprietors were responsible for the direct payment of the land revenue to the state. The Proprietor had the right to sub let his land holdings, or to transfer, mortgage or to sell it. A proprietor holds the land till the government wanted him to be the Proprietor. In case if the Proprietor failed to pay the state demand of the land revenue, he was evicted from the office.

3). Ryotwari system of land tenure and taxation in India. Was Introduced in 1792 in two districts of Madras, ry-otwari was instituted by the British colonial administration in the Madras Presidency between 1818 and 1823, in the Bombay Presidency between 1818 and 1828, and in Assam and Berar in the mid-19th century.

4). In the regions with ryotwari, landholdings gradually became concentrated in the hands of landlords who often came from the elite of the communes, especially those who owned small and medium-sized estates, moneylenders, merchants, and other prosperous urban strata of the population. By the late 1940's, these groups owned about 60 percent of the land in these areas. By the 1950's, when the government of independent India began implementing land reforms, about 57 percent of the privately owned land was taxed according to the ryotwari system.

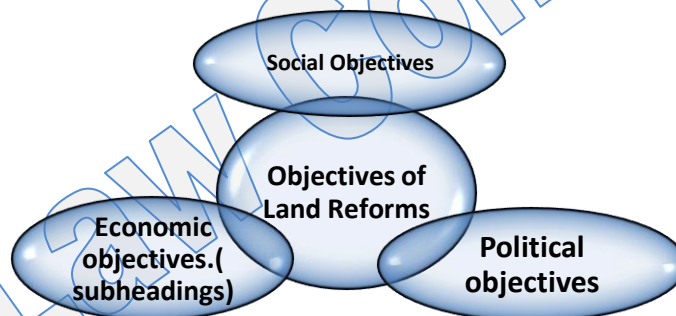
**TOPIC 4 : LAND REFORMS**

**Definition & meaning of land reforms**

- 1). Land reform usually refers to redistribution of land from the rich to the poor. More broadly, it includes regulation of ownership, operation, leasing, sales, and inheritance of land (indeed, the redistribution of land itself requires legal changes).
- 2). "The term "land reforms" is used in discussing the various changes made in the cultivator's relation to land in a land tenure system. Land reforms in India broadly refers to abolition of intermediary tenures, tenancy reforms, ceiling on landholding and distribution of surplus land, consolidation of holdings, and compilation and updating of land records. " --The Planning Commission - India
- 3). Briefly, land reform can be described as an integrated programme of measures designed to eliminate obstacles to economic and social development arising out of defects in the agrarian structure.
- 4). Land reform may consist of a government-initiated or government-backed property redistribution, generally of agricultural land. Land reform can, therefore, refer to transfer of ownership from the more powerful to the less powerful, such as from a relatively small number of wealthy (or noble) owners with extensive land holdings (e.g., plantations, large ranches, or agribusiness plots) to individual ownership by those who work the land. Such transfers of ownership may be with or without compensation; compensation may vary from token amounts to the full value of the land.

**OBJECTIVES OF LAND REFORMS**

The land reform is carried to achieve three main objectives (i) Social, (ii) Political and (iii) Economics.



**(1) Social Objectives.**

From social point of view, it is essential that the tiller of the soil should have a fair treatment at the hands of the owners of land. The land reform should help in reducing disparity in wealth. It should eliminate exploitation, provide security to tenants. It should ensure the provision of equality of status and opportunity to different sections of the rural population. The different sections of the rural society should get a fair and reasonable reward for its labour and investment.

**(2) Political objectives.**

Land reform is needed for achieving political stability in the country. If a country is continuously ruled by feudal lords (zamindars), it increases political unrest and increases the chances of revolution. To avoid the revolution, and conflict among the landlords and the tenants, the earlier the land reform is carried out, the better it is in the interest of the country.



**(3) Economic objectives.**

**(i) Core of agricultural development:** Land reform is the very core of agricultural development. It is through land reform that agriculture can be lifted out of stagnation.

**(ii) Feudalism put to an end:** With the the help of land reforms the feudalism can be put to an end which is the main obstacle to economic development.

**(iii) Helps in removing insecurity to tenants:** The tenants are always at the mercy of landlords. The land reforms provide security to the tenants.

**(iv) Permanent improvements:** The tenancy reforms encourage the tenants to make permanent improvements such as leveling of land, drainage tube wells etc in their occupied land holding. This helps in the increase in production.

**(v) Reduction in disparity:** The abolition of landlordism not reduces disparities in wealth but also affords a measures of opportunity to the landless tenants to make contribution to economic progress.

**(vi) Emergence of peasant proprietor system:** With the implementation of land reforms the peasant proprietorship system emerges which leads to efficient cultivation through mechanization.

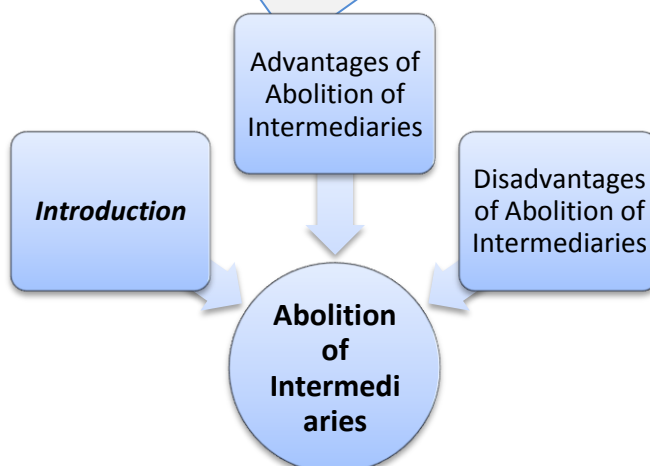
**(vii) Increase in government revenue:** The land reforms encourage the tenants small holders of land to make permanents improvements in land. With the increase in agricultural produce the state is in a position to raise revenue from the land.

Summing up land reform is needed to achieve economic growth, fair income distribution and achieving political ad economic stability.

**ELEMENTS /SCOPE OF LAND REFORMS**

The Britishers in India were not at all keen in adopting progressive land reforms measures for the rural farmers. This had given the Zamindars and the big landlords a golden opportunity to exploit the rural poor to a great extent. It was only after independence that serious efforts were made to introduce land reforms measures. They are as follows:

**1. Abolition of Intermediaries:**





**(i) Introduction:**

- Intermediaries like Zamindars, Talukdars, Jagirs and Inams had dominated the agricultural sector in India by the time the country attained independence. Quite naturally top priority was accorded to the abolition of intermediary tenures.
- Soon after independence, measures for the abolition of the Zamindari system were adopted in different states. The first Act to abolish intermediaries was passed in Madras in 1948. Since then, state after state passed legislation abolishing Zamindari rights.
- The Orissa Estates Abolition Act was passed in 1951. By 1955, the progress for the abolition of intermediaries had been completed in almost all the states.

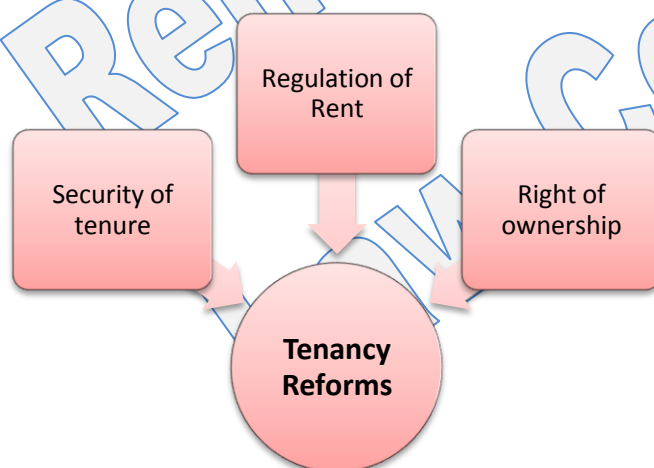
**(ii) Advantages of Abolition of Intermediaries:**

- (a) As a result of the abolition of intermediaries, about 2 crore tenants are estimated to have come into direct contact with the State making them owners of land.
- (b) The abolition of intermediaries has led to the end of a parasite class. More lands have been brought to government possession for distribution to landless farmers.
- (c) A considerable area of cultivable waste land and private forests belonging to the intermediaries has been vested in the State.

**(iii) Disadvantages of Abolition of Intermediaries:**

- (a) Abolition of intermediaries has resulted in a heavy burden on the state exchequer. The ex-intermediaries have been given a compensation amounting to Rs. 670 crores in cash and in bonds.
- (b) It has led to large-scale eviction. Large-scale eviction, in turn, has given rise to several problems – social, economic, administrative and legal.

**2. Tenancy Reforms:**



**(i) Security of tenure:**

Security of tenure creates interest among the cultivators for improving their land. Further, it helps in attaining two basic objectives of land reforms namely increase in productivity and promotion of social justice. To protect tenants from ejection and to grant them permanent rights on lands, laws have been enacted in most of the states. They have three essential features.

- (a) Tenants cannot be evicted without any reason. They can be evicted only in accordance with the laws.
- (b) Land can be resumed by the landlord only on the ground of personal cultivation. But the land-lord can resume the land only up to a maximum limit.
- (c) The landlord should leave some area to the tenant for his own cultivation. The tenant in no case should be made landless.

**(ii) Regulation of Rent:**

- a) In Pre-Independent India rents were high for obvious reasons. A number of factors such as defective land tenure systems, pressure of population on land, absence of non-farm

employment opportunities and the apathetic and lukewarm attitude of the government towards the tenants' interest were responsible for the continuous rise in rents. Fifty per cent of the total produce was paid as rent. In some areas the rent was as high as 70 per cent.

- b) At the beginning of the First Plan, the Central Government insisted on the regulation of high rent by State Governments. It was laid down that the rent to be paid to the landlord should not be more than 20 to 25
- c) Accordingly, different State Governments passed tenancy legislations to regulate rent. The main objective of such Acts was to make the rent fair and reasonable. However, the maximum rent differs from state to state. For example, while in Orissa and Bihar the rent is fixed at 1/4th of the gross produce, in Punjab it is one third and in Rajasthan it is one-sixth of the gross produce. The rates also vary within the state because of the difference in the fertility of land.

**(iii) Right of ownership:**

- a) So far as right of ownership is concerned, tenants have been declared as the owners of the land they cultivate. They have to pay compensation to the owners. The amount of compensation should not exceed the level of fair rent.
- b) In some states provisions have been made allowing the tenant to purchase the leased land on payment of a price to the landlord. If any dispute arises between the tenant and the landlord over the payment of price, this may be referred to a land tribunal. The tribunal will decide the price to be paid by the tenant to the landlord.
- c) As a result of these measures about 40 lakh tenants have already acquired ownership rights over 37 lakh hectares of land. They have become better-off economically and socially.

**3. Ceiling on land holdings:**

- a) Ceiling on land holdings implies the fixing of the maximum amount of land that an individual or family can possess. It is socially justifiable to impose ceilings on land and distribute it to the actual users of land, making the tenants as the owners. In this way, ceilings on land holdings can go a long way in raising income and bringing prosperity of the toiling masses in the country.
- b) Land ceiling has two aspects: one, the fixation of ceiling limit and two, the acquisition of surplus land and its distribution among the small farmers and landless workers.
- c) According to some economists small farms are more efficient than large farms. Prof. C. H. Hanumatha held the view that small farms provide more employment opportunities. They require less capital compared to the large farms. He further added that small farms can be made into large farms through cooperative effort so as to have scale economies.
- d) Ceiling legislations in India have been enacted and implemented in all states in two phases. The first phase continued upto 1972. The second phase started from 1972
- e) Certain types of land were exempted from ceiling laws. Among the types of land exempted were orchards, grazing lands, sugar-cane fields of sugar factories, cooperative farms etc.

**4. Consolidation of Holdings:**

**(i) Consolidation of Holdings meaning :** Consolidation of Holdings means bringing together the various small plots of land of a farmer scattered all over the village as one compact block, either through purchase or exchange of land with others.

**(ii) Declining joint family system:** Nuclear family system is now leading to sub-division and fragmentation of holdings. Subdivision and fragmentation of holdings results in several disadvantages such as wastage of land, difficulties in land management, difficulty in the adoption of new technology, disputes over boundaries, disguised unemployment, low productivity etc.

**(iii) Advantages of Consolidation of Holdings:**

- (a) It prevents the endless subdivision and fragmentation of land holdings.
- (b) It saves the time and labour of a farmer.
- (c) It effect improvement on land in the form of bunding, fencing etc.

- (d) It promotes large-scale cultivation.
- (e) It brings down the cost of cultivation and reduces litigation among farmers.

**5. Co-operative farming:**

- (i) In the Indian context joint co-operative farms and service co-operatives are mostly observable.
- (ii) In this system, farmers pool their small holdings for the purpose of cultivation and reap benefits of large scale farming. The advantages of scientific farming, adopting the new potential technologies can be reaped; co-operative farming lays the foundation of strong democracy, self-help and mutual help.

**6. Bhoodan Movement:**

The Bhoodan Movement was spearheaded by Acharya Vinoba Bhave. He collected land from the rich landlords and distributed that to the landless. About 4.2 million acres of land were received under Bhoodan, but so far only about 1.3 million acres have been distributed.

**7. Compilation and updating of land records:**

Compilation and updating of the land records are an essential condition for the effective implementation of land reforms programme. In recent years the states have been urged to take all measures for updating land records with the utmost urgency by adopting a time-bound programme. Efforts are also being made to maintain the land records through computerization.

**Topic-5: Causes of Failure of Land reforms in India**

**Causes of Failure of Land reforms in India**

- Undue advance publicity and delay in enacting land laws
- Loose definition of the term “personal cultivation”
- Optional nature of the laws
- Malafide transfer of land
- Lack of social consciousness among the tenants
- State side with the big farmers
- Lack of strong political will
- Bureaucratic corruption
- Surplus land is fallow and uncultivable land
- Absence of records
- Lack of uniformity in land reforms laws
- Emergence of new agriculture technology

There are a number of causes for the failure of the programmes of land reforms. They are as follows:

**1. Undue advance publicity and delay in enacting land laws:**

- Much publicity has been given in advance by the leaders of the ruling party to the proposed land reforms after independence. Again, the time taken for a bill to become an Act in many states has been unusually long.
- This has enabled the landowners to make necessary adjustments so as to be able to evade various provisions of land reform legislation. According to the World Bank, "We have, for an unduly long time, continued to preach land reforms rather than practise them and this has proved counterproductive."

**2. Loose definition of the term "personal cultivation":**

The term 'Personal cultivation' is quite loose. One could resume land for personal cultivation under the definition even while sitting at a distance of 200 miles. The Zamindars have been permitted to possess substantial areas of land for cultivation. Again, the laws have provided for many exemptions in the form of land awarded for gallantry, land under orchards, tea estates, well-run farms etc.

**3. Optional nature of the laws:**

Most of the laws granting ownership rights to tenants are not mandatory. They are rather optional. The tenants have to move the government for grant of ownership rights. They will not get them automatically. On many occasions, tenants hesitate to approach the law courts for this purpose merely out of fear of the landlords.

**4. Malafide transfer of land:**

To escape the laws relating to land ceilings, the Zamindars have indulged in large scale transfer of land to their family members or kinsmen. Such Malafide transactions do not make any change in the operational aspect of agriculture.

**5. Lack of social consciousness among the tenants:**

Small cultivators and the landless were not only unorganised but in most cases, ignorant of legal and constitutional process; the large cultivators & zamindars were very often successful in getting the land reforms modified or even nullified both at the stage of legislation as well as implementation.

**6. State side with the big farmers:**

N. C. Saxena has rightly observed that the state governments which control the land operations have moved favourably towards the big farmers. The interests of the small farmers have been vitally affected.

**7. Lack of strong political will:**

The programme of land reforms necessitates adequate political desire, zeal and support. But unfortunately the political leaders only wear a mask of progressive socialistic outlook. But in reality, this important factor is lacking and often standing in its way. The lack of political will is amply demonstrated by the large gaps between policy and legislation and between law and its implementation.

**8. Bureaucratic corruption:**

- Land reforms provide a golden opportunity to the Patwari and other functionaries of the Revenue Department to make money. Again in many cases the highly placed officials are themselves landlords.
- Moreover, the lands which are acquired to be distributed among landless farmers are engraved by the politicians and bureaucrats at cheap rate.

**9. Surplus land is fallow and uncultivable land:**

The holders of surplus land manipulate the land data in such a way that the land in excess in their possession is usually barren and uncultivable. Such a surplus land does not yield any benefit to the landless peasants. In this way the very purpose of land reforms legislation is defeated.

**10. Absence of records:**

Absence of records regarding ownership and possession of land and about its actual cultivators stands in the way of properly identifying the beneficiaries of land reforms.



**11. Lack of uniformity in land reforms laws:**

Land reforms laws are not uniform throughout India. They are different in different states. This also accounts for the slow progress of land reforms measures.

**12. Emergence of new agriculture technology:**

The new seed-cum-fertilizer technology, for its successful adoption, needs ample resources and dynamic entrepreneurship. Only large farmers can fulfill these conditions. Hence on this count many economists have come out in favour of the abolition of ceiling on land holdings.

**Topic-6 : Commercialization of Agriculture**

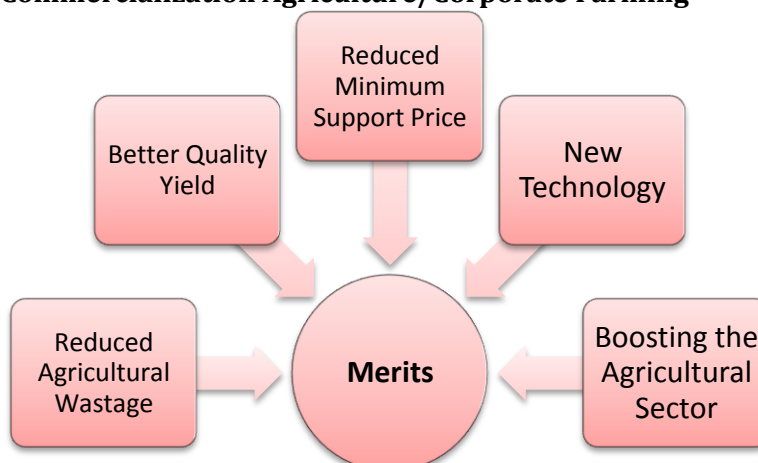
**Introduction to Commercialization of agriculture:**

- 1) The commercialization of agriculture means that the agricultural crops and goods are produced by the peasants for sale in the market and not for their own consumption.
- 2) Commercialization of agriculture in India began during the British rule. The commercialization of Indian Agriculture was done primarily to feed the British industries that it was taken up and achieved only in cases-of those agricultural products which were either needed by the British industries or could fetch cash commercial gain to the British in the European or American market. For example, several efforts were made to increase the production of cotton in India to provide raw and good quality cotton to the cotton-textile industries of Britain which were growing fast after the Industrial Revolution in Britain.

**Commercialization of Agriculture in 21<sup>st</sup> century- Corporate Farming:**

- 1) Corporate farming is a term that is used to describe an agricultural operation that involves the production of food and food-related products on an exceptionally large scale. This approach is different from the operation of family farm as a business, in that the corporate approach calls for not only the growing of food products but also the wide range of additional services that are important to the marketing of the foods produced. From this perspective, corporate marketing is not just about agriculture itself, but also all the other components that are found under the broad umbrella of agricultural production, marketing, and distribution.
- 2) Presently Asian economies like India and Pakistan have resorted to corporate farming in a bid to lure multinationals into investing in the agricultural sector to reform it through industrialization. This trend has especially been noted among textile industries. Cotton seems to have attracted many such agricultural companies that want to produce high-yield good quality fabrics to fulfill the demand for exports. Economies of UK and US have already witnessed this business phenomenon in their agricultural sector. They are proofs of a highly developed food industry with a well-developed agricultural system.

**Merits of Commercialization Agriculture/Corporate Farming**





1) **Reduced Agricultural Wastage**

Timely harvesting of crops helps avoid wastage of food. This increases the yield produced from the same input. Did you know? About 2% of the total farmlands in the US, under this type of farming, produce as much as 14% of the overall crop production. Increase in output leads to decrease in food prices.

2) **Better Quality Yield**

Corporates are in a better position to protect crops through extensive use of pesticides. This helps ensure minimal damage to crops and a better quality yield. This farming also encourages the employment of food cultivation techniques that increase the storage life of crops for exports.

3) **Reduced Minimum Support Price**

This farming is definitely synonymous with large outputs that lead to economies of scale. Hence, it helps reduce the minimum support price. This means you pay lesser for the same food than you did 5 years back. This will help keep a check on food inflation and bring down the prices of crops and, thus, makes cheap food available to all and in large quantities.

4) **New Technology**

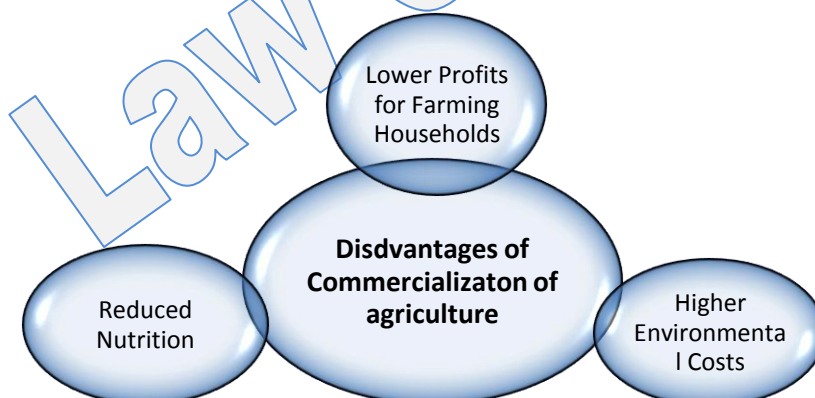
A concept that is predicted to soon popularize in capital-intensive economies is the precision technology. Tractors will be run through the control of satellites to harvest crops in a much lesser time. This will inadvertently avoid wastage due to deterioration.

5) **Boosting the Agricultural Sector**

Industrialization of agriculture has helped in rapid production of crops to meet the needs of the economy and revived the importance of agriculture in the GDP. It will also contribute to the development of exports. Increase in agricultural production through the use of advanced technology has obviously boosted the agri-scenario in developed and developing economies.

**Disdvantages of Commercializaton of agriculture**

Commercialization of Agriculture (COA) adversely affected the rural peasantry. The negative aspect of C.O.A. is as follows:



**1) Lower Profits for Farming Households**

As agribusinesses are widening their horizons in agriculture, this has severely affected the livelihood of many farmers. In economies thriving on this type of farming, farmers face problems of reduced profits or increased costs. This has largely affected the sustainability of their occupations. They are then forced to enter into contracts with companies for growing contracted crops on their farmlands that these corporates buy at their quoted prices. They are left with no decision-making controls.

### **2) Reduced Nutrition**

It also compromises on the nutritional value of food by using high amounts of insecticides and pesticides to prevent damage to crops. They blindly use food additives, coloring agents, chemicals and hormone injection to speed up the process of crop maturity. Such genetically modified crops lack nutritional content in comparison to organically grown nutritious crops. This has become a great topic of political and economic debate in recent times.

### **3) Higher Environmental Costs**

Mechanization of agriculture through the use of technology has although increased the pace of all production processes, it has made it difficult for the environment to cope up with this speed. It interferes with the natural and biological processes of the environment. Moreover, corporate farming may soon be a threat to the water bodies that will quickly dry up from excess irrigation, polluting of fisheries by disposal of chemical wastes, depletion of oxygen in the atmosphere and increasing threat to all those engaged in agriculture. It also pollutes the soil and is negligent towards animal health welfare.

### **4) Risk of Monopolistic Economies**

It tends to encourage food production by only a handful of large companies. This will promote monopoly or oligopoly in the markets by concentration of production capacity and power and create flaws in the existing system of market forces.

**Conclusion:** Corporate farming is not as rosy as it seems. Although its benefits cannot be denied, its negative consequences have far-reaching effects in the long term. Short-sightedness of the government to reap benefits in the present can lead to economic disparity in the future. It also willingly invites intrusion from strong foreign corporates to interfere with the economic and agricultural situation of a country. In translation, there will be insensitivity to the demands of the people as they focus on profit maximization in agriculture. This may mark the onset of severe global food crisis. Contract farming is another way forward to deal with the usefulness of agribusinesses when corporate farming is not used to abuse the commercialization of agriculture.