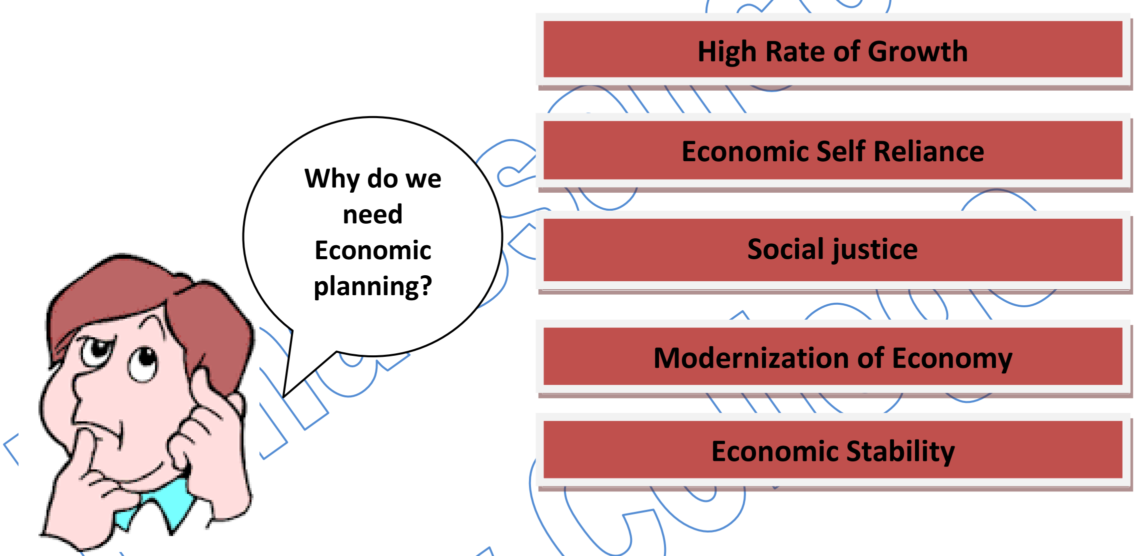
Unit – I
Concepts and Rationale of Planning

<u>Topic 1 Need for economic planning</u>

Planning without an objective is like driving without any destination. There are generally two sets of objectives for planning, namely the short-term objectives and the long-term objectives. While the short-term objectives vary from plan to plan, depending on the immediate problems faced by the economy, the process of planning is inspired by certain long term objectives. In case of our Five Year plans, the long-term objectives are:



(i) High Rate of Growth

All the Indian Five Year Plans have given primary importance to higher growth of real national income. During the British rule, Indian economy was stagnant and the people were living in a state of abject poverty. The Britishers exploited the economy both through foreign trade and colonial administration. While the European industries flourished, the Indian economy was caught in a vicious circle of poverty. The pervasive poverty and misery were the most important problem that has to be tackled through Five Year Plan.

During the first three decades of planning, the rate of economic growth was not so encouraging in our economy Till 1980, the average annual growth rate of Gross Domestic Product was 3.73 percent against the average annual growth rate of population at 2.5 percent. Hence the per-capita income grew only around 1 percent. But from the 6th plan onwards, there has been considerable change in the Indian economy. In the Sixth, Seventh and Eight plan the growth rate was 5.4 percent, 5.8 percent and 6.8 percent respectively. The Ninth Plan, started in 1997 targeted a growth rate of 6.5 percent per annum and the actual growth rate was 6.8 percent in 1998 - 99 and 6.4 percent in 1999 - 2000. This high rate of growth is considered a significant achievement of the Indian planning against the concept of a Hindu rate of growth.

(ii) Economic Self Reliance

Self reliance means to stand on one's own legs. In the Indian context, it implies that dependence on foreign aid should be as minimum as possible. At the beginning of planning, we had to import food grains from USA to meet our domestic demand. Similarly, for accelerating the process of industrialization, we had to import, capital goods in the form of heavy machinery and technical know-how. For improving infrastructure facilities like roads, railways, power, we had to depend on foreign aid to raise the rate of our investment.

As excessive dependence on foreign sector may lead to economic colonialism, the planners rightly mentioned the objective of self-reliance from the third Plan onwards. In the Fourth Plan much emphasis was given to self-reliance, more specially in the production of food grains. In the Fifth Plan, our objective was to earn sufficient foreign exchange through export promotion and important substitution.

By the end of the fifth plan, Indian became self-sufficient in food-grain production. In 1999-2000, our food grain production reached a record of 205.91 million tons. Further, in the field of industrialization, now we have strong capital industries based on infrastructure. In case of science and technology, our achievements are no less remarkable. The proportion of foreign aid in our plan outlays have declined from 28.1 percent in the Second Plan to 5.5 percent in the Eighth Plan. However, in spite of all these achievements, we have to remember that hike in price of petroleum products in the international market has made self-reliance a distant possibility in the near future.

(iii) Social Justice:

Social justice means to equitably distribute the wealth and income of the country among different sections of the society. In India, we find that a large number of people are poor; while few lead a luxurious life. Therefore, another objective of development is to ensure social justice and to take care of the poor and weaker sections of the society. The Five-Year Plans have highlighted four aspects of social justice. They are:

(i) Application of democratic principles in the political structure of the country;
(ii) Establishment of social and economic equity and removal of regional disparity;
(iii) Putting an end to the process of centralization of economic power; and
(iv) Efforts to raise the condition of backward and depressed classes.

Thus the Five Year Plans have targeted to uplift the economic condition of socio-economically weaker sections like scheduled caste and tribes through a number of target oriented programmes. In order to reduce the inequality in the distribution of landed assets, land reforms have been adopted. Further, to reduce regional inequality specific programmes have been adopted for the backward areas of the country.

In spite of various efforts undertaken by the authorities, the problem of inequality remains as great as ever. According to World Development Report (1994) in India the top 20 percent of household enjoy 39.3 percent of the national income while the lowest 20 percent enjoy only 9.2 percent of it. Similarly, another study points out that the lowest 40 percent of rural household own only 1.58 percent of total landed asset while the top 5.44 percent own around 40 percent of land. Thus the progress in the field of attaining social justice has been slow and not satisfactory.

(iv) Modernization of the Economy:

Before independence, our economy was backward and feudal in character. After attainment of independence, the planners and policy makers tried to modernize the economy by changing the structural and institutional set up of the country. Modernization aims at improving the standard of living of the people by adopting a better scientific technique of production, by replacing the traditional backward ideas by logical reasoning's and bringing about changes in the rural structure and institutions.

These changes aim at increasing the share of industrial output in the national income, upgrading the quality of products and diversifying the Indian industries. Further, it also includes expansion of banking and non-banking financial institutions to agriculture and industry. It envisages modernization of agriculture including land reforms.

(v) Economic Stability:
Economic stability means to control inflation and unemployment. After the Second Plan, the price level started increasing for a long period of time. Therefore, the planners have tried to stabilize the economy by properly controlling the rising trend of the price level. However, the progress in this direction has been far from satisfactory.

TOPIC - 2 : Objectives/ Strategies of Five Year Plans (Imp)

Introduction to Planning Commission of India :
It is an institution of Government of India which formulates India's Five Year plans.
Head Quarters : Yojana Bhawan, Sansad Marg, New Delhi - 110001
Chariman : Narendra Modi (Prime Minister)
Deputy Chairman : Vacant after the resignation of Montek Singh Ahluwalia
Member Secretary : Rajeev Ratna Shah

Note: Planning commission has been abolished in India & has been replaced by **NITI Ayog (National institute for transforming India).** Mr. B Saraswat has been made head of it.

Planning – tenure	Main- objectives	Target Growth	Actual Growth
1st Five Year Plan (1951-56)	Priority of Agriculture	2.1	3.6
2nd Five Year Plan (1956-61)	Priority of industries	4.5	4.3
3rd Five Year Plan (1961-66)	Self reliance	5.6	2.8
Three Annual plans(1966-69, known as plan holiday)	--------	--------	----------
4th Five Year Plan (1969-74)	Removal of poverty, growth with justice. Removal of Poverty (Garibi Hatao)	5.7	3.3
5th Five Year Plan (1974-79)	Removal of poverty, self reliance	4.4	4.8
Rolling Plan (1978 - 80)	- Food Production, Employment, Productivity		
6th Five Year Plan (1980-85)	Employment generation, control of population.	5.2	5.7
7th Five Year Plan (1985-1989)	Food Production, Employment, Productivity	5.0	6.0
Period (1989 - 1991) Political instability	Severe BOP crisis		
8th Five Year Plan (1992-1997)	- Employment Generation, Control of Population	5.6	6.8
9th Five Year Plan (1997-2002)	Growth rate of 7%	6.5	5.4
10th Five Year Plan (2002-2007)	Self employment and resources and development	8.0	7.6

11th Five Year Plan (2007-2012)	Comprehensive & faster growth	9.0	8.0
Twelfth Five Year Plan (2012-17)	Improvement of Health, Education and Sanitation	___	____

1st Five Year Plan (1951-56)

1). It was based on Harrod-Domar Model.
2). Influx of refugees, severe food shortage & mounting inflation confronted the country at the onset of the first five year Plan.
3). It aimed towards the improvement in the fields of agriculture, irrigation and power and the plan projected to decrease the countries reliance on food grain imports, resolve the food crisis and ease the raw material problem especially in jute and cotton.
4). Establishment of 3 big steel plants & beginning of atomic energy development programme with establishment of various research institutes.
5). Nearly 45% of the resources were designated for agriculture, while industry got a modest 4.9%. The focus was to maximize the output from agriculture, which would then provide the momentum for industrial growth.
6). 1st five year plan proved dramatic success as agriculture production hiked, national income went up by 18%, per capita income by 11% and per capita consumption by 9%.
7). Target Growth = 2.1%
Actual Growth = 3.6%

<u>**2nd Five Year Plan (1956-61)**</u>

1). It was based on Model prepared by Prof. P C Mahalanobis. (Plan is also called Mahalanobis Plan).This plan laid the foundation of subsequent plans.
2). The Industrial Policy of 1956 was socialistic in nature. The plan aimed at 25% increase in national income.
3). Second plan was conceived in an atmosphere of economic stability . It was felt agriculture could be accorded lower priority & heavy industries should be given more priority.
4). The Plan Focussed on rapid industrialization- heavy & basic industries/ capital goods industries. A great emphasis was given on rapidly increasing the production of iron and steel . This plan Advocated huge imports through foreign loan
5). The strategy of huge imports resulted in serious balance of payment crisis. India exhausted its sterling balance in the first 2 years of plan . This compelled India to borrow huge foreign loans
6). Second Five Year Plan showed a moderate success. Agricultural production was greatly affected by the unfavourable monsoon in 1957-58 and 1959-60
7). Acute shortage of forex led to pruning of development targets , price rise was also seen (about 30%) vis a vis decline in the earlier Plan & the 2nd FYP was only moderately successful.
8). Target Growth = 4.5%
Actual Growth = 4.3%

<u>**3rd Five Year Plan (1961-66)**</u>

1). Based on the experience of first two plans (agricultural production was seen as limiting factor in India’s economic development), agriculture was given top priority to support the exports and industry.
2).At its conception, it was felt that Indian economy has entered a “take- off stage”. Therefore, its aim was to make India a 'self-reliant' and 'self-generating' economy. The Plan’s main motive was to make the country self reliant in agriculture and industry and for this allotment for power sector was increased to 14.6% of the total disbursement.

3). The plan aimed to increase national income by 30% and agriculture production by 30% and to promote economic developments in backward areas; unfeasible manufacturing units were augmented with subsidies and agriculture production by 30%.
4). The 3rd five year plan was affected by wars with China in 1962 and Pakistan 1965 and bad monsoon. Thus the results of 3 rd plans were disappointing.
5). Target Growth = 5.6%
Actual Growth = 2.8%

Three Annual plans(1966-69, known as plan holiday)
1). Failure of Third Plan that of the devaluation of rupee(to boost exports) along with inflationary recession led to postponement of Fourth FYP. Three Annual Plans were introduced instead. Prevailing crisis in agriculture and serious food shortage necessitated the emphasis on agriculture during the Annual Plans.
2). During these plans a whole new agricultural strategy was implemented. It involving wide-spread distribution of high-yielding varieties of seeds, extensive use of fertilizers, exploitation of irrigation potential and soil conservation.
3). During the Annual Plans, the economy absorbed the shocks generated during the Third Plan. It paved the path for the planned growth ahead.

4th Five Year Plan (1969-74)
1). Refusal of supply of essential equipments and raw materials from the allies during Indo Pak war resulted in twin objectives of " growth with stability " and "progressive achievement of self reliance " for the Fourth Plan.
2). This five year plan mainly emphasized on encouraging education and creating employment opportunities for the marginalized section of the society as improvement in their standard of living would only make the country economically self- reliant. Main emphasis was on growth rate of agriculture to enable other sectors to move forward
3). Implementation of Family Planning Programmes were amongst major targets of the Plan.
4). First two years of the plan saw record production. The last three years did not measure up due to poor monsoon. The achievements of the fourth plan were not as per the expectations as agriculture and industrial growth was just at 2.8% and 3.9% respectively.
5). Influx of Bangladeshi refugees before and after 1971 Indo-Pak war was an important issue along with price situation deteriorating to crisis proportions and th
e plan is considered as big failure.
6). Target Growth: 5.7%
Actual Growth: 3.3%

5th Five Year Plan (1974-79)
1). The final Draft of fifth plan was prepared and launched by D.P. Dhar in the backdrop of economic crisis arising out of run-away inflation fuelled by hike in oil prices and failure of the Govt. takeover of the wholesale trade in wheat.
2). The fifth plan mainly aimed on checking inflation and various non-economic variables like nutritional requirements, health, family planning etc. The plan anticipated 5.5% growth rate in national income.
3). It proposed to achieve two main objectives: 'removal of poverty' (Garibi Hatao) and 'attainment of self reliance'. Promotion of high rate of growth, better distribution of income and significant growth in the domestic rate of savings were seen as key instruments
4). The plan could not complete its 5 year tenure and was discontinued by the new Janata government in the fourth year only.
5).Target Growth: 4.4%

Actual Growth: 4.8%

Rolling Plan (1978 - 80)

1). There were 2 Sixth Plans. Janta party Govt. put forward a plan for 1978- 1983 emphasising on employment, in contrast to Nehru Model which the Govt criticised for concentration of power, widening inequality & for mounting poverty .

2). However, the government lasted for only 2 years. Congress Govt. returned to power in 1980 and launched a different plan aimed at directly attacking on the problem of poverty by creating conditions of an expanding economy.

6th Five Year Plan (1980-85)

1). The 6th five year plan was formulated by the Congress government in 1980 which equally focused on infrastructure and agriculture.
2). The Plan focussed on Increase in national income, modernization of technology, ensuring continuous decrease in poverty and unemployment through schemes for transferring skills(TRYSEM) and seets(IRDP) and providing slack season employment (NREP), controlling population explosion etc.
3). Broadly , the sixth Plan could be taken as a success as most of the target were realized even though during the last year (1984-85) many parts of the country faced severe famine conditions and agricultural output was less than the record output of previous year. The plan was successful in achieving a growth of 6% pa.
4). Target Growth: 5.2%
Actual Growth: 5.7%

7th Five Year Plan (1985-1989)

1). The Plan aimed at accelerating food grain production, increasing employment opportunities & raising productivity with focus on 'food, work & productivity'. The plan introduced programs like Jawahar Rozgar Yojana.
2). This plan was proved successful in spite of severe drought conditions for first three years consecutively.The plan was very successful as the economy recorded 6% growth rate against the targeted 5% .
3).Target Growth: 5.0%
Actual Growth: 6.0%

Period (1989 - 1991)
This period was of political instability hence, no five year plan was implemented during the period; only annual plans were made for the period between 1990 and 1992. The country faced severe balance of payment crisis.

8th Five Year Plan (1992-1997)

1). The eighth plan was postponed by two years because of political uncertainty at the Centre.Worsening Balance of Payment position, rising debt burden , widening budget deficits, recession in industry and inflation were the key issues during the launch of the plan.

2). The eighth plan aimed towards modernization of industries, poverty reduction, encouraging employment, strengthening the infrastructure. Other important concerned areas were devaluation of rupees, dismantling of license prerequisite and decrease trade barriers.
3). The plan undertook drastic policy measures to combat the bad economic situation and to undertake an annual average growth of 5.6% through introduction of fiscal & economic reforms including liberalisation under the Prime Minister ship of Shri P V Narasimha Rao & Finance Minister Shri Manmohan Singh
4). Some of the main economic outcomes during eighth plan period were rapid economic growth (highest annual growth rate so far – 6.8 %), high growth of agriculture and allied sector, and manufacturing sector, growth in exports and imports, improvement in trade and current account deficit. High growth rate was achieved even though the share of public sector in total investment had declined considerably to about 34 %.
5). Target Growth :5.6 %
Actual Growth: 6.8%

9th Five Year Plan (1997-2002)
1). The Plan prepared under United Front Government focused on "Growth With Social Justice & Equality " Ninth Plan aimed to depend predominantly on the private sector – Indian as well as foreign (FDI) & State was envisaged to increasingly play the role of facilitator & increasingly involve itself with social sector viz education , health etc and infrastructure where private sector participation was likely to be limited.
2). It assigned priority to agriculture & rural development with a view to generate adequate productive employment and eradicate poverty. The ninth five year plan focused on increasing agricultural and rural income and to improve the conditions of the marginal farmer and landless laborers.
3). Target Growth: 6.5%
Actual Growth: 5.4%

10th Five Year Plan (2002-2007)
1). The 10th five year plan targeted towards making India's economy as the fastest growing economy on the global level.
2). Recognising that economic growth can't be the only objective of national plan, Tenth Plan had set 'monitorable targets' for few key indicators (11) of development besides 8 % growth target. The targets included :
*Reduction in gender gaps in literacy and wage rate,
*Reduction in Infant & maternal mortality rates, improvement in literacy,
*Access to potable drinking water cleaning of major polluted rivers, etc.
3). Governance was considered as factor of development & agriculture was declared as prime moving force of the economy. States role in planning was to be increased with greater involvement of Panchayati Raj Institutions.
4). State wise break up of targets for growth and social development sought to achieve balanced development of all states.
5). The plan showed success in reducing poverty ratio by 5%, increasing forest cover to 25%, increasing literacy rates to 75 % and taking the economic growth of the country over 8%.
6). Target Growth 8%
Actual Growth 7.6 %

11th Five Year Plan (2007-2012)
1). India had emerged as one of the fastest growing economy by the end of the Tenth Plan. The savings and investment rates had increased , industrial sector had responded well to face competition in the

global economy and foreign investors were keen to invest in India. But the growth was not perceived as sufficiently inclusive for many groups , specially SCs , STs & minorities as borne out by data on several dimensions like poverty, malnutrition, mortality, current daily employment etc .

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

3). The eleventh five year plan targets to increase GDP growth to 10%, to reduce educated unemployment to below 5% while it aims to reduce infant mortality rate to 28 and maternal mortality ratio to 1 per 1000 live births, reduce Total Fertility Rate to 2.1 in the health sector.

4). The plan also targets to ensure electricity connection and clean drinking water to all villages and increase forest and tree cover by 5%.

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

6). Target Growth 9%
Actual Growth 8%

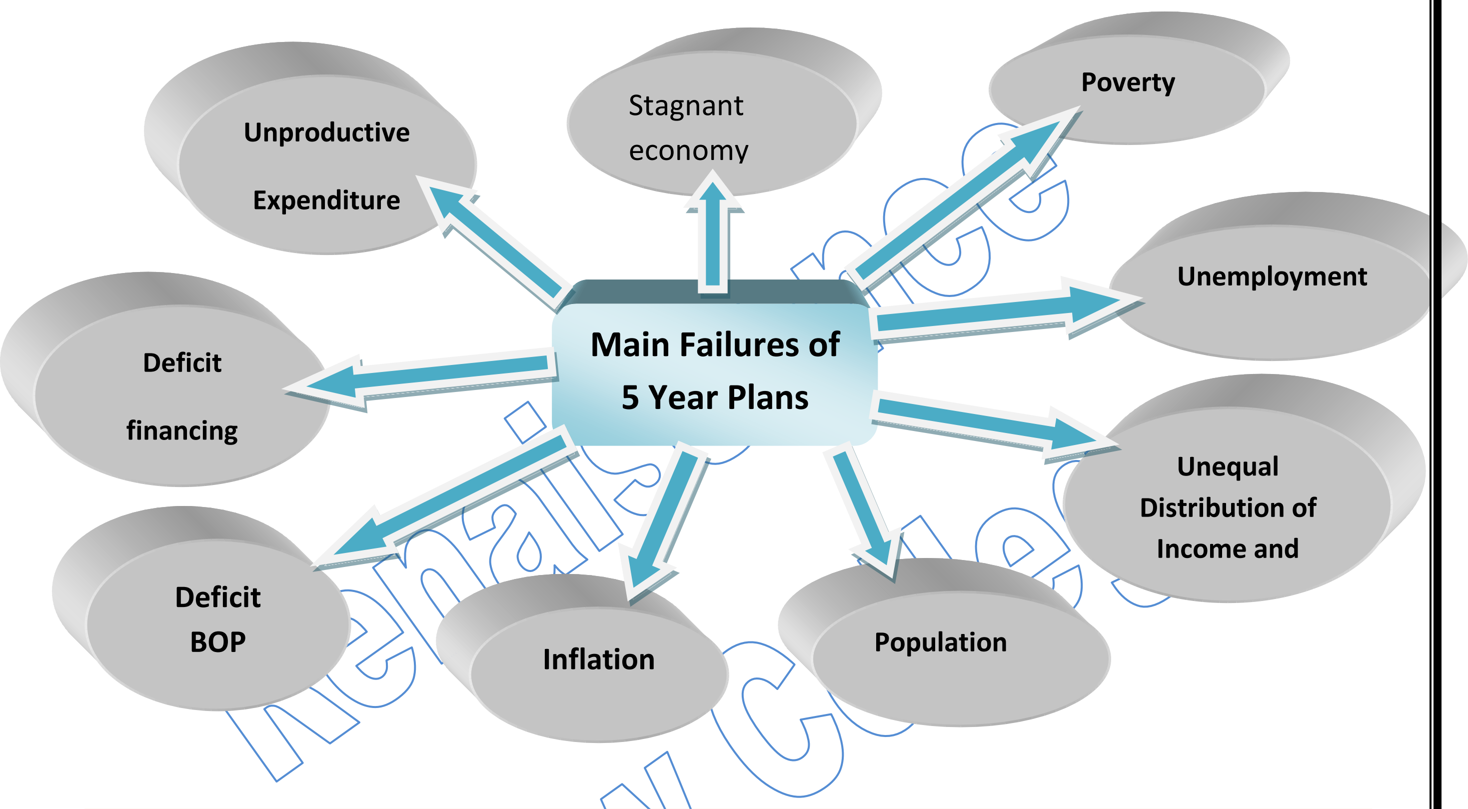
<u>Twelfth Five Year Plan (2012-17)</u>

1). The Twelfth Plan commenced at a time when the global economy was going through a second financial crisis, precipitated by the sovereign debt problems of the Eurozone which erupted in the last year of the Eleventh Plan. The crisis affected all countries including India. Our growth slowed down to 6.2 percent in 2011-12 and the deceleration continued into the first year of the Twelfth Plan, when the economy is estimated to have grown by only 5 percent . The Twelfth Plan therefore emphasizes that our first priority must be to bring the economy back to rapid growth while ensuring that the growth is both inclusive and sustainable.

2). The broad vision and aspirations which the Twelfth Plan seeks to fulfill are reflected in the subtitle: 'Faster, Sustainable, and More Inclusive Growth'. Inclusiveness is to be achieved through poverty reduction, promoting group equality and regional balance, reducing inequality, empowering people etc whereas sustainability includes ensuring environmental sustainability ,development of human capital through improved health, education, skill development, nutrition, information technology etc and development of institutional capabilities , infrastructure like power telecommunication, roads, transport etc ,

TOPIC 3: Failures/Problems of 5 year plans

Despite the fact that India had made rapid progress in the sphere of agricultural as well as industrial sectors but it is most disheartening to observe that it has miserably failed on many fronts , it has failed to achieve declared objectives. However, its main failures are under mentioned:



1. Stagnant Economy:
* When India was freed, it had deep marks of stagnation. During the phase of forty years of economic planning, its growth rate is zero or near zero.
*According to one estimate, growth of national income was about 1.15 per cent during 1950 to 1980 per year and growth of per capita income was at less than 0.5 percent.
*Similar trend has been noticed after the adoption of plans. This fact is also reflected from the national income by industrial origin. The occupational structure also provides gloomy picture as more than 70 per cent people are still engaged in agriculture sector.

2. Poverty:
*These five year plans have miserably failed to reduce poverty as 40 per cent of population is still in tight grip of poverty. Poverty is greatly responsible for poor diets, low health and poor standard of living.
*A proportion of the population has to go even without the most essential needs of daily life. In short, both underdevelopment and inequality are responsible for poverty in the country.

3. Unequal Distribution of Income and Wealth:

*Another failure of the planning is that the distribution of income and other assets in rural and urban areas continues to be unbalanced

*The bulk of increased income has been pocketed only by the rich few while weaker section of the society lives from hand to mouth and lead a very miserable life. There is no second opinion to say that 2 per cent people of this country possessed 98 per cent wealth.

4. Increasing Unemployment:

*The unemployment is a constant threat to the social atmosphere of the country as they resort to various unlawful activities. According to 30th round of the N.S.S. Survey, in March 1985, in the age groups of 5 these were only 9.20 million, in the age groups of 15 they were 8.77 million and in the age groups of 15 to 59, there were 8.67 million unemployed.

*The pitiable position is found in rural areas where disguised unemployment and white collar unemployment (educated unemployment) in urban areas are in a deplorable position. The rising unemployment may be attributed to galloping population, capital intensive techniques, defective education system and unstable agriculture.

5. Abnormal Growth of Population:

*In all plans, main objective was to check over-population but it has miserably failed to bridge the galloping population.

*The rapid growth of population has aggravated the situation to the worst. This problem gives birth to twin problems of poverty and unemployment.

6. Inflationary Pressure:

*Inflation has started with the onset of heavy doses of investment programmes during different five year plan periods. Now, it turned to the gravity of the problem as it has created serious imbalances in the socio-political and economic relations.

*The people with fixed income group find it extremely difficult to maintain the standard of living. Abnormal rise in prices has generated other problems of corruption, black marketing, dishonesty and immorality etc.

7. Adverse Balance of Payments:

*Truly, the production of agricultural and industrial sector has increased manifold but still we are dependent on imports. In our plans, we have stressed on export promotion and import substitution to correct the adverse balance of payments but no headway has been made in this direction.

*It has continuously been unfavourable. The situation has further deteriorated since the penultimate year of the Sixth Five Year Plan. The situation in Seventh Plan has not improved rather it is still dismal. During nineties also, position of external debt is not encouraging.

8. Unproductive Expenditure:
*India is deficient in capital due to rising expenditure on unproductive channels. Moreover, huge investments are made on the construction of five star hotels and other wasteful consumption.
*Its benefits go in the hands of few affluent people where generally wealth concentrates. Consequently, the rich becomes rich and the poor lag behind.

9. Huge Amount of Deficit Financing:
*To mobilize the resources for different plans, government has absolutely failed to manage from internal resources. The government at this time is left with no alternative but deficit financing. At every successive plan, there is huge amount of deficit finance.
*From 1950-51 to 1984-85 total amount of deficit financing in the country was Rs. 24,440 crores. During Seventh Plan, it was proposed to be Rs. 14,000 crores and Rs. 18,000 crore in Eighth Plan.

10. Biased Growth Profile:
*At last, Indian plans have given many evils like the growth of monopolistic practices, large inequalities, and poverty but still it has delivered biased growth in favour of more well to do section of the society.
*It has widened the gap between man to man, region to region. The result is that a large many are below poverty line.

Topic 4: Globalization

Obstacles to Globalization

- Govt. policy
- Infrastr-uctural proble ms
- High costs
- Resistance to change
- Poor Image
- Supply problems

The India business suffers from a number of disadvantages in respect of globalisation of business. The important problems are the following.

1) Government policy and procedure: Government policy and procedure in India are among the most complex, confusing and cumbersome in the world. Even after the much publicized liberalization, they do not present a very conducive situation. One pre-requisite for success in globalization is swift and efficient action. Government policy and the bureaucratic in India in this respect are not that encouraging.

2) High cost: High cost of many vital inputs and other factors like raw materials and intermediates, power, finance infrastructure facilities like port etc., tend to reduce the international competitiveness of the Indian business.

3) Poor Infrastructure: Infrastructure in India is generally inadequate and inefficient and therefore very costly. This is a serious problem affecting the growth as well competitiveness.

4) Resistance to Change: There are several socio-political factors which resist change and this comes in very way of modernization, renationalization and efficiency improvement. Technological modernization is resisted due to fear of unemployment. The extent of excess labour employed by the Indian industry is alarming. Because of this labour productivity is very low and this in some cases more than offsets the advantages of cheap labour.

5) Poor Quality Image: Due to various reasons, the quality of many Indian products is poor. Even when the quality is good, the poor quality image India has becomes a handicap.

6) Supply Problem: Due to various reasons like low production capacity, shortages of row materials and infrastructures like power and port facilities, Indian companies in many instances are not able to accept large orders or to keep up delivery schedules.

7) Small Size: Because of the small size and the low level of resources, in many cases Indian firms are not able to compete with the giants of other countries. Even the largest of the Indian companies are small compared to the multinational giants.

8) Lack of Experience: The general lack of experience in managing international business is another important problem.

9) Limited R & D and Marketing Research: Marketing Research and R & D in other areas are vital inputs for development of international business. However, these are poor in Indian business.
Expenditure on R. & D. in India is less than one per cent of the GNP while it is two to three percent in most of the developed countries. In 1994-95, India's per capital R & D expenditure was less than $3 when it was between $100 and $825 for most of the developed nations.

10) Growing Competition: The competition is growing not only from the firms in the developed countries but also from the developing country firms. Indeed the growing competition from the developing country firms is a serious challenge to India's international business.

11) Trade Barriers: Although the tariff barriers to trade have been progressively reduced thanks to the GATI/WTO, the non-tariff barriers have been increasing, particularly in the developed countries. Further, the trading block like the NAFTA, EC etc., could also adversely affect India's business.

<u>Factors Favouring Globalization</u>

Although India has several handicaps, there are also a number of favorable factors for globalization Indian business.

1) Human Resources: apart from the low cost of labour, there are several other aspect s of human resources to India's favour. India has one of the largest pool of scientific and technical manpower. The number of management graduates is also surging. It is widely recognized that given the right environment, Indian scientist and technical personnel can do excellently. Similarly, although the labour productivity in India is generally low, given the right ebvironment it will be good. While several countries are facing labour shortage and may face diminishing labour supply, India presents the opposite picture. Cheap labour has particular attraction for several industries.

2) Wide Base: India has a very broad resource and industrial base which can support a variety of businesses.

3) Growing Entrepreneurship: Many of the established industries are planning to go international in a big way. Added to this is the considerable growth of new and dynamic entrepreneurs who could make a significant contribution to the globalisasation of Indian business.

4) Growing Domestic Market: The growing domestic market enables the Indian companies to consolidate their position and to gain more strength to make foray into or to expand their foreign business.

5) Niche Markets: There are many marketing opportunities abroad present in the form of market niches. (A niche is a small segment of a market ignored or not properly served by large players). Such niches are particularly attractive for small companies. Several Indian companies have become very successful by niche marking.

6) Expanding Markets: The growing population and disposable income and the resultant expanding internal market provides enormous business opportunities.

7) Transnationalisation of World Economy: Transnationalisation of the world economy, i.e., the integration of the national economics into a single world economy as evinced by the growing interdependence and globalization of markets is an external factor encouraging globalization of India business.

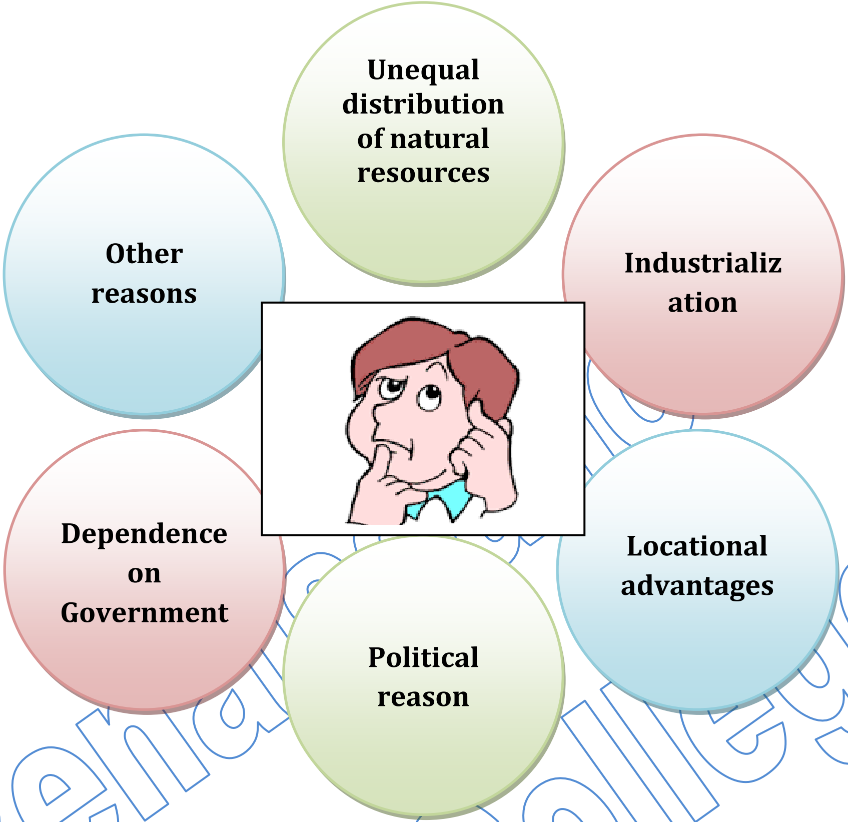
8) Economic Liberalization: The economic liberalization in India is an encouraging factor of globalization. The relicensing of industries removal of restriction on growth, opening up to industries earlier reserved for the public sector, import liberalizations, liberalization of policy towards foreign capital and technology etc., could encourage globalization of Indian business. Further, liberalization in other countries increases the foreign business opportunities for Indian business.

9) Competition: The growing competition, both from within the country and abroad, provokes many Indian companies to look to foreign markets seriously to improve their competitive position and to increases the business. Sometimes companies enter foreign market as a counter – competitive strategy, i.e., to fight the foreign company in its own home market to weaken its competitive strength.

Topic 5: Regional imbalances

What is Regional Imbalance? : When some states are economically advanced while other are relatively backward, it is called regional imbalance. If we talk about India, we find that there is extreme regional imbalances. There are some states like Punjab and Haryana whose income is highest in the country while some states are very poor like Bihar, Orissa, Kerala, Assam etc. regional imbalance may be natural due to unequal distribution of natural resources or it may be manmade when some states are neglected while others are preferred in development efforts.

Cause of Regional Imbalance (with reference to India)



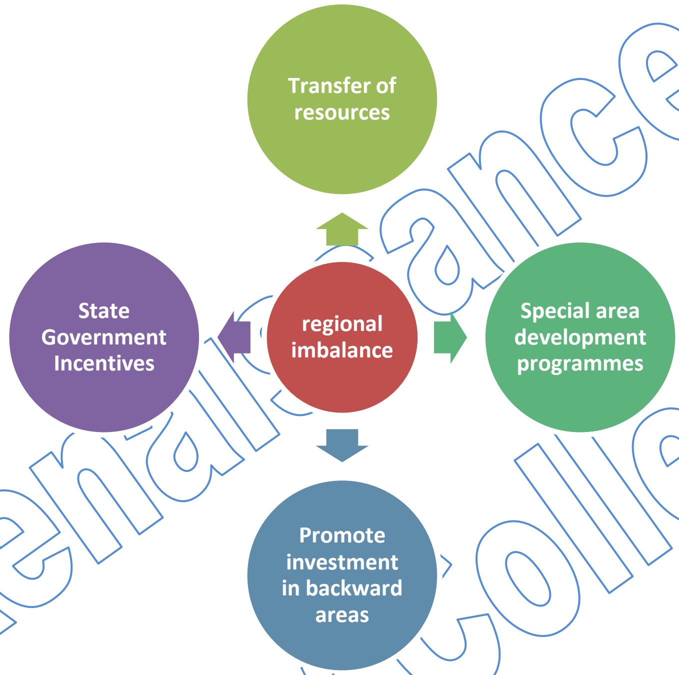
There are some efforts factors which come in the way of rapid development of a region. With reference to India, following are the causes of regional imbalance-

1. **Unequal distribution of natural resources.** The most important reason of regional imbalance is unequal distribution of natural resources among the various states of the country. It is beyond the control of human beings. For example Punjab and Haryana are leader in agriculture because they have fertile and means of irrigation. Maharashtra and Gujarat are having advantages in industrial development because they have sufficient natural resources.
2. **Industrialization:** industrialization is another reason of fast economic development of some states in comparison to other states. Andhra Pradesh, Karnataka, Maharashtra and Haryana recorded significant industrial growth since independence. Therefore these states made more employment opportunities and better living standard.
3. **Locational advantages.** Some region are preferred because they have certain locational advantages. The location of iron and steel factories or oil refineries are in those states which have sufficient raw material and climates advantage. One of the reason of rapid development of Mumbai is that it is situated in sea shore.
4. **Political reason.** Political involment is also a big reason of imbalance development of regions. Even though, balanced development was principal objective of Planning Commission but it was completely ignored by our planners. Government itself is strongly biased in favor of developed states and the less-developed states are neglected completely. This is the reason that imbalance among various states is widening.
5. **Dependence on Government.** Poor states depend largely on the help from the Central Government. They do not believe in self-help or self-efforts to promote their own development. These states do not use their limited resources efficiency and so they suffer from inadequate development.

6. **Other reasons.** Concentration of industries in certain areas is also due to ready availability of power, water supply and transport facilities which have been developed there.

Measures to remove regional imbalance

Balanced development of all regions and all states in a country is necessary to enable the people in all regions to share the benefits of development. Indian planners and Government are seriously paying attention to solve the problem of regional imbalances. Following are the steps taken in this field-



1. **Transfer of resources.** As per the recommendation of finance commission, the Central Government transfer resources from rich states to poor states. Various scheme are sponsored by Central Government for long term and short term credit. In almost every five year plan, the ratio of Government subsidy was highest for poor states. Despite that it is not a guaranteed way to remove the regional imbalance because it is not certain that the backward states will utilize the resources efficiency.
2. **Special area development programmes.** Another scheme formulated by Central Government is to develop highly areas, tribal areas and drought-prone areas. Moreover, rural development programmes are also made for small farmers and agricultural laborers. These programmes are now helping in achieving full employment.
3. **Promote investment in backward areas.** Various incentives are provided by Central Government to promote private investment in backward areas. Special subsidy and income tax concession are provided by Central Government. Industries which are setup in remote areas are provided 50 percent transport subsidy on the expenses incurred for movement of raw materials and finished goods.
4. **State Government Incentives.** State Government have also offered incentives to attract the private sector units to the backward region. These incentives include power and water on no-profit no loss basis, interest free loan, exemption from octroi and taxes etc.

Unit – 2
Economic Developement

"The extent of a country's resources is quite obviously a limit on the mount and type of development which it can undergo."
Professor W.A. Lewis

Importance of Natural Resources for economic Development

1) The existence of the absence of favorable natural source can facilitate or retard the process of economic elopement. Professor W.A. Lewis writes- "The extent of a country's resources is quite obviously a limit on the mount and type of development which it can undergo."

2) Underdeveloped countries, embarking on programmes of economic development, "usually have to begin with and concentrate on the development of locally available natural resources as an initial condition for fitting local levels of living and purchasing power, for obtaining foreign exchange with which to purchase capital equipment, and for setting in motion the development process.

3) Natural resources include land, water resources, fisheries, mineral resources, forests, marine resources, climate rainfall and topography. Some of these resources are known to man. For example, the topography of a region, the size of land surface, the climate, the area under forests, and the discovered mines form a part of a the natural wealth about which the people of a country possess knowledge.

4) Monazite sand deposits on the beaches of Kerala and Tamil Nadu had been known for several decades, but recent advances in the science of nuclear energy have made these resources most valuable and the new use has earned the title of 'rare earths' for these sands.

5) While some natural resources such as land, water, fisheries and forests are renewable others like minerals and mineral oils are exhaustible and can be used only once. Consequently, careful use of the exhaustible resources and maintenance of the quality of renewable resources like land are a must in the process of development.

Land Resources

Table 1 describes the land utilization pattern in India for the year, 1999-2000. The total geographical area of India is about 329 million hectares, but statistical information regarding land classification is available for only about 306 million hectares; this information is based partly on village papers and partly on estimates.

Barren land. 42 million hectares or 14 per cent of the total reporting area in India are classified as –
(a) Barren land, such as mountains, deserts, etc. which cannot be brought under cultivation, and
(b) Area under non-agricultural uses that it is, lands occupied by buildings, roads and railways, rivers and canals, and other lands put to uses other than agricultural.
Presently, 14 per cent of the total reporting area is not available for cultivation. With rapid increase in population and growing urbanization, this percentage would increase over the ears.

Table 1 – Land Utilization Pattern, 1999-2000.

Particulars		Area Per cent	million hectares)
(i)	Total geographical area	329	-
(ii)	Total reporting area	306	100
(iii)	Barren land, not available for cultivation	42	14
(iv)	Area under forests	69	23
(v)	Permanent pastures and grazing land	11	3
(vi)	Cultural waste lands, etc.	18	6
(vii)	Fallows lands	25	8
(viii)	Net area sown	141	46
(ix)	Area sown more than once	49	16
(x)	Total cropped area (viii+ix)	190	62

Area under forests- Table 1 show that 69 million hectares of land or 23 per cent of total land area is under forests. Area under forests includes all land classified as forests by law or administered as forests, whether state-owned or private, and whether wooded or maintained as potential forest land.

Pastures and grazing land- Permanent pastures and other grazing lands include all grazing lands such as permanent pastures and meadows and village common grazing land. Table 1 show that 111 million hectares or 3 per cent of the total land area are classified as permanent pastures.

Culturable waste Lands, etc- Table 1 refer to culturabe waste lands, viz. lands available for cultivation but not cultivated during the previous 5 or more years. They include land under miscellaneous tree crops such as casuarinas trees, thatching grasses, bamboo bushes and other groves for fuel, etc.

Fallow lands- These are cultivable but remain uncultivated or remain fallow during a given year or for some period. Fallow lands are further classified into current fallows and other fallow lands. Current fallows represent cropped areas which are kept fallow during the current year, as, for example the seeding area may not be cropped in the same year

Agricultural Lands- Now, out of the total reported area of 306 million hectares, net area sown is only 141 million hectares or 46 per cent of the total land area. Net area sown includes the total area sown with crops and orchards, counting area sown more than once in the same year, only once.Total cropped area represents total area covered with crops and it is the sum total of all the land covered by all the individual crops; area sown with crops more than once during the year being counted as separate areas for each crop. Table I shows that the total cropped area in India in 1990-2000 was 190 million hectares. (It was 185 million hectares in 1990-91).

Problem of increasing cultivable area

At the time of Independence, in 1947, India had the massive problem of achieving self-sufficiency in food. The various "Grow more food" programmes initially aimed at increasing the total cultivable area in the country. As a result, till the beginning of the 1960's, increase in agricultural production was more the result of expansion of cropped area. This was done by

(a) Converting grazing lands and forest lands into crop lands,
(b) Bringing cultivable wastelands under the plough and
(c) Shifting the cropping pattern in such a way as to divert land under founder crops to food crops

Vohra's Thesis- Reduce net sown area

1) While attempts are being made to protect our land area from erosion and other environmental degradation, to increase the net area sown, and adopt modem techniques of agriculture production in the context of exploding population, B.B. Vohra of the National Commission of Environmental Planning, had pleaded for a reduction of the cultivated area from the present 141-142 million hectares to around 100 million hectares.

2) Critics, however, easily brush aside Vohra's thesis as unrealistic and unpracticable, on the ground that only marginal and small farmers would lose their land and would be forced to become landless laborers.

3) So far, the Government has paid attention only 46 per cent of the land area characterized as cultivated land. The present policy of emphasis on agriculture art increased farm production without equal emphasis on forestry and grazing lands is indeed counter-productive. The real challenge to the Government is to formulate development strategy for an integrated land use plan with equal emphasis on the proper management of forest lands, grazing lands and crop lands.

Water Resources of India

Introduction to water resources in India

1) Of the two source of surface-water one is rainfall. The annual average rainfall over the country is around 1,000 mm/ 40 inches. It is, however, very unevenly distributed, geographically and time-wise.

2) As for rivers, the other source of surface water, there are 14 major rivers(with a catchment area of over 20,000 sq. each)

- 44 medium rivers (with a catchment area of 2,000-20,000sq. km. each),
- Minor ones (with a catchment area of less than 2,000 sq. k. each).
- Perennial rivers of the Himalayan region which are snow-fed and carry considerable quantities of water throughout the year.
- And there seasonal rivers which depends on rainfall and carry enormous water during the monsoon period (June-Octomber), but a mere trickle in the dry-weather period.
-

3) **Ground water:** Ground water is a part of the surface water, which gets accumulated below the surface of the ground. On the water that seeps into the soil, a portion remains in the top layers of the earth and produces moisture, which is essential for the growth of vegetation. The remaining percolates into the porous strata and goes below the surface. Unlike rains and rivers, which cover most parts of the country, ground-water is available largely in certain areas like, for example, the Indo-Genetic plains of Punjab, Haryana, Uttar Pradesh, Bihar and West Bengal.

Problems related to water Resources in India

1) **Acute scarcity-** Among the problems that the country is up against, the most serious is its shortage in several respects, like for drinking irrigation etc. the per capita fresh water resources at present (2004) is a mere 1,167 cu. Meters. Its smallness is obvious when one look at the world average at 6,872. It is less than even the average of the low-income economies, 3,456, and far lower than that of the high-income economies at 9,703.

2) **Fast-rising population and rapid industrialization:** Because of the fast-rising population and rapid industrialization of the country. The surface water, largely that of rivers, get contaminated with toxic chemicals and heavy metals such as lead and mercury.The supply of clean water gets, reduced substantially. The use of such water, for drinking and bathing causes infection, leading to such killer diseases as typhoid, cholera etc. The damage to fisheries, the main source of protein and

livelihood for many, is tremendous. With polluted-materials accumulated, navigation in several slow-moving rivers ceases to be smooth.

3) **Fresh water supply:** The present fresh water withdrawals stand at just 500 billion cu. m. This is just 26.2 per cent of the total resources. Further increases in the water-supply can be made by using/developing technologies for discovering new sites sites of groundwater, desalination of sweater, creation of artificial rains etc.

4) **Conservation of ground Water:** As for conservation of water, the most important remedy, in a monsoon-fed country like India, lies in augmenting the ground water. For this a number of measures need to be adopted. One, for example, concerns leveling of land, alongside extensive contour building so as to collect water that will sleep into the soil. Another remedy is to cover the soil with vegetation (like fodder crops, forests etc.) so that the flow of the surface water gets slowed down, which, in turn, will result in greater seepage of water into the sub-soil.

5) **Optimum utilization-** It is also essential that the use-pattern of water is so designed as maximizes the benefits. It requires, in the first place, laying down of priorities with the need for drinking heading the list, followed by agriculture (faring and livestock production), industries etc. linking of rivers, in particular the perennial ones, in the form of a national grid, can be of great help in diverting surplus-water to deficit-water areas. Another essential step is to ensure that the available water is not wasted. This requires, in the first place, measures to prevent pollution of water, as also treatment of polluted water.

6) **Water pricing policy:** Unfortunately the present practice in respect of water-pricing is far from satisfactory. In agriculture, for example, water is used almost free of any charge in several areas of the country. As a result, irrigation system in such as involves much waste of water. In urban areas the picture too is no better Consumers are changed only for costs incurred 01 the supply of water and for cleaning of water after use.

Mineral Resources In India

Types of Mineral Resources

1) Mineral resources in India can be categorized into 2 groups, namely metallic minerals and non-metallic minerals. Metallic mineral resources are the ones, which have the properties of lustre, solidity and hardness. These metals can be melted, drawn into wires and rolled into sheets. Usually metals exist as compounds in chemical combination with other minerals. Only few of these minerals occur in a pure state. Gold, silver and copper are examples of such minerals. Metallic minerals are extracted from the earth in raw state, called as mineral ore. The major metallic minerals found in India are iron, copper, lead, zinc, tin, silver and gold.

2) On the other hand, there are some minerals that do not contain metal in them and are used for the extraction of non-metals like Sulphur, Phosphorous, Carbonate and so on. Limestone, Antimony, Mica and Gypsum Salts are some of the significant non metallic minerals that are found in abundance in India. Madhya Pradesh, Bihar, Orissa, Goa, Karnataka, Andhra Pradesh, Maharashtra, Kerala, Tamil Nadu and Rajasthan are the major producers of iron ore in India.

Distribution of Mineral Resources in India

1) Coal reserves are substantial. Coal is abundantly available in West Bengal, Orissa, Madhya Pradesh and Andhra Pradesh but unfortunately the quality coal that is required for raising coke as an important input in steel industries is rather inadequate. However, the closeness of coal and the iron deposits has resulted in this shortcoming to certain extent.

2) India is mostly rich in iron resources. Iron and coal, actually forms the basis of the machine age. As per estimation, India possesses virtually world's one fourth of iron ore resources. Its capital is rich not only quantitatively but also qualitatively. A further significant mineral required by the ferrous industries is manganese, and it is also found in abundance in India. It is used to manufacture steel alloy

3) Limestone, another input in steel industry, is also abundant and prevalent. India is also affluent in Bauxite, the ore for Aluminium and Mica used for electrical industries. India, on the other hand, is poor in non-ferric minerals like Zinc, Lead, Copper and Gold. It is also lacking in sulphur which forms the foundation of modern chemical industry. At certain point of time, India was insufficient in the manufacture of mineral oil and natural gas. However, persistent efforts, supported by modern technology, have helped everybody to trace considerable reserves that may last for at least another 30 to 40 years.

4) In India, Petroleum is found in Gujarat, Assam and Bombay High. Other areas like Manipur, West Bengal, Kutch, the Andamans, Tamil Nadu and Punjab are also considered as potential oil bearing regions. In Assam the major oil producing areas are Digboi, Sibsagar, Naharkatiya, Rudrasagar, Badarpur, Masinpur and Pallharia. Ankleshwar, Kheda, Vadodara, Khambat, Broach and Kalol are the chief areas in Gujarat. Moreover, oil has recently been unearthed in Godavari and Krishna basin, Khambat basin, Kaveri basin, etc.

5) India has only one Diamond producing area, the Panna Diamond Belt, which spreads across the regions of Panna District, Satna, Chatarpur district in Madhya Pradesh. Banda, Uttar Pradesh is also covered under this area.

Topic 2: Determinants of Economic development

Factors in Economic Development:

Economic development is a complex process. It is influenced by a number of factors such as natural resources, capital, human resources, technology, social attitude of the people, political condition in the country.

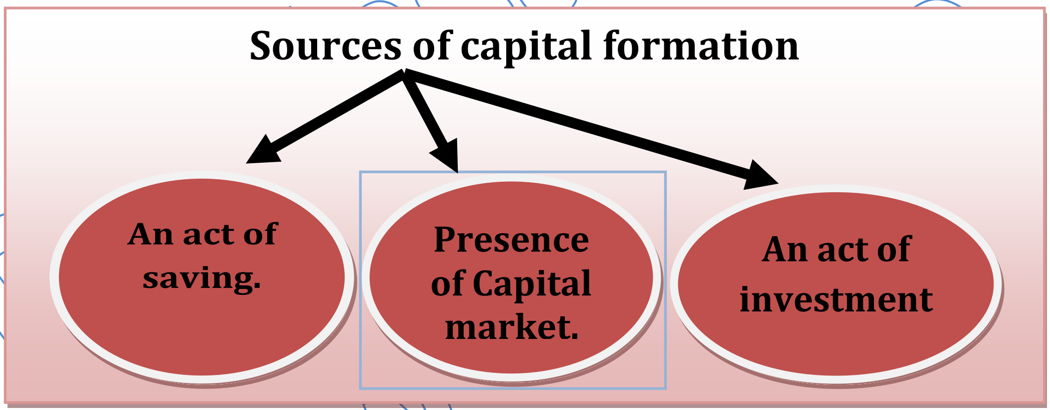
(A) Economic Factors.

Economic factors play a very important role in the development of a country. The aggregate output rises or falls mainly due in changes to them. The main economic determinants are (1) Natural

Resources (2) Capital (3) Labour (4) Power (5) Transport and Communication (6) Human Capital. These economic factors are discussed in brief.

(1) Natural Resources. The natural resources is the principal factor which affects the development of an economy. If a country is rich in natural resources, it is then able to make rapid progress in growth. In case a country is deficient in forest wealth, mineral resources, water supply, fertility of land etc., it is then normally not in a position to develop rapidly. The pity with the most of LDC's is that their natural resources are under-utilized, unutilized or misutilized. This is one of the reasons for their backwardness. It may here be noted that presence of rich resources is not a precondition for economic development. There are countries in the world which do not have abundant resources, yet they have made rapid progress in growth by superior technology, new researches and higher knowledge..

(2) Capital Formation. Capital accumulation or capital formation is an important factor in the economic growth of a country. Capital formation refers to the process of adding to the stock of capital over time. The stock of capital can be built up and increased through three different resources which are:



(a) An act of saving. An act saving involves the postponing of consumption whether voluntarily or involuntarily so that funds thus made available be used for investment.

- In developing countries the saving potential is low. A large majority of the people hardly keep their body and soul together with the meager income at their disposal. Saving is a luxury and far beyond their reach.

- The saving potential of under developed countries, therefore, normally does not exceed 13% to 10% of the national income which keeps their stock of capital low.

  (b) Capital market. The capital market consists of financial institutions, like development banks, stock exchanges and investment banks. In low income countries, the capital market is less developed. As such it is not able to mobilize saving to the desired extent.

(c) An act of investment. In less developed countries, whatever meagre saving are available with households and with the businessmen, is not all channelized for investment in capital goods. The businessmen usually hesitate to invest their resources due to political and social instability in the country, fear of nationalization of industries, limited domestic market, poor roads, etc.

How to increase capital formation

In developing countries, the capital formation is around 5%. It should be raised to the level of at-least 20% by adopting the following measures:

(1) Sine voluntary saving is not forth-coming in low income countries, the government should resort to forced saving. The various methods of forced saving are (a) taxation (b) deficit financing and (c) borrowing

(2) Obtaining of external resources in the form of loans and grants for development progress.
(3) Increasing exports and reducing imports can also provide funds for capital formation.

3. Human resources
Human resources of a country is an important factor in economic development. If the population of a country is educated, efficient, patriot, skilled, healthy, it makes significant contribution to economic development.

On the other hand, if a country is overpopulated, labour force is unemployed, uneducated, unskilled, unpatriotic, it can put serious hurdles on the path of economic development.

4. Power.
Power resources are the foundation of economic development. They are derived mainly from two types of sources (1) Commercial and (2) Non-commercial Commercial resources of power are (a) oil, gas, coal, hydel, thermal electricity and nuclear. Non- commercial sources include animal power, fuel, wood, cow dung. The power resources are vital to economic growth of a country. Its importance has been changing with the passage of time. Before industrial Revolution, the energy for operating the machines was mainly supplied by animals, human power and wind. With the scientific advancement, coal, oil, gas, and water falls are used as the principal sources of energy. In developed countries of the world, the nuclear power and solar energy are being increasingly used for generating electricity.

The various sources of energy are helpful in ;
(a) Giving an initial push to the raising of production in all sectors of the economy.
(b) Quickly bridging the development gap.
(c) Providing economies of scale.
(d) Ensuring high quality standard.
(e) Reducing material wastages in all sectors of the economy.

5. The Means of Transport and Communication

The means of transport and communication have an important bearing on the economic growth of a country. If a country is well connected with rail road, sea ports and has a developed means of communication including information technology, it then helps in improving the productive capacity of the various sectors of the economy. An efficient transport and communication network contributes to improving the quantity and quality of goods due to competition and reduction in production costs.

Topic 3: Causes of Economic backwardness in india

Introduction:

1) Economic backwardness is the simplest to define. If income does not suffice to meet the basic needs. Social backwardness is people belonging to a certain group are considered to be inferior to other groups. This ultimately results in economic backwardness as because of this prejudice the group is denied opportunities and face unequal treatment in all walks of life.

2) Economic backwardness is what the Govt defines it. People who live below a certain income level are economically backward. Earlier, those below 2.5lacs per annum were considered economically backward of society. Now people above 4.5 lacs are considered cream of society. That is those below 4.5 lacs per annum are to be considered as economically backward.

Obstacles to Economic Development:

1. Poverty cycle:

- ✶ Low incomes --> Low savings --> Low investment --> Low productivity --> low income.. Absolute poverty: inability to just meet basic physical human necessities/needs of food/nutrition, clothing, health and shelter in order to survive· Because this is so difficult to measure accurately, many researchers simply estimate that 20% of the world's population falls below this line
- ✶ UNDP reports that most live in 10 countries, with the proportions falling below the poverty line in brackets: Bangladesh (80%), Ethiopia (60%), Vietnam (55%), Philippines (54%), Brazil (49%), India (40%), Nigeria (40%), Pakistan (29%), Indonesia (24%) and China (10%)

2. Economic obstacle:

Although they are often linked, economic obstacles can be divided into those which are largely the result of domestic policies (internal) and those which are related to the structure of the international economy (external).

A). Internal Obstacles

There are five main internal obstacles to economic development: underdeveloped financial systems, the lack of economic freedom, macroeconomic instability, and an underdeveloped infrastructure.

*Underdeveloped Financial Systems
*Lack of Economic Freedom
*Macroeconomic Instability
*Balance of payments.
*Infrastructure

B). External Obstacles:

External obstacles also limit economic development. In contrast to developed countries, developing countries are very vulnerable to fluctuations in the global economy. For example. india's economic growth slowed in 2001 as a global economic slowdown impacted both aid and foreign direct investment in the region. This situation is the result of the following factors: dependence on exports of primary products, unequal terms of trade, changes in export demand, and dependence on external funding.

3. Political obstacles:

In developing countries, political obstacles have a much larger impact on economic development than economic obstacles. This is because economic policies are created and implemented by politicians. Political obstacles include underdeveloped institutions and too much government intervention in the economy.

- Important to attract FDI
- Important that the next government assume the debt obligations of outgoing government
- Rule by the will of the people OR for the government in power - who is the government working for?

4. Underdeveloped Institutions:

In most developing countries, governmental institutions are either absent, inefficient, or extremely weak. Even in countries with the requisite institutions, incompetent and/or unqualified civil servants, burdensome bureaucratic procedures, resistance to change, inept management, departmental rivalries, and pervasive cronyism greatly limit the government's effectiveness. Poor governance has three main consequences:

1. Unstable economic and political policies
2. Creates obstacles to economic growth
3. Fosters corruption

5. Social obstacles:

Social and cultural factors acting as barriers

- religion
- culture
- tradition
- gender issues
- Periods of economic growth are associated with structural transformation and social and ideological changes. In the past, 1/3 of growth came from population increases and 2/3s from productivity increases
- Productivity increased due to technological change in terms of capital and human skills, encouraging research and development which led to further growth
- The rise in income led to increased consumption:
- Demand for income elastic industrial products rose quickly
- Demand for income inelastic agricultural goods grew only slowly
- This led to a rapid rural-urban shift which often destroyed traditional values

While not primary obstacles to economic development, social obstacles can also slow economic growth and limit economic development. Three of the most important obstacles are population growth, lack of access to education and environmental devastation.

6. Population Growth:

80 percent of the world's population lives in the developing world (i.e. the part of the world with the least amount of resources). In many developing countries, the population is growing faster than the ability of society to provide the education and skills necessary to improve economic growth. In addition, a rapidly growing population lowers per capita income growth, especially for those who are already poor, live in rural areas, and depend on agriculture.

7. Lack of Access to Education:

Since human resources ultimately determine the character and pace of economic development, a poorly educated workforce limits increases in productivity and competitiveness, thus slowing economic growth. There are two major factors which limit educational access: poverty and a rapidly expanding population. The former prevents poor families from sending their children to school and the latter dilutes educational expenditures, diminishing their effectiveness.

8. Environmental Devastation:

In traditional economic growth models, the cost of destroying the natural resources base was not included in GDP figures. However, as a result of increasing environmental degradation and declining economic growth rates in developing countries, more attention has been directed to the links between environmental issues and development. Damage to water supplies, land, and forests slows economic development by increasing health related costs, reducing agricultural productivity, and increasing the income gap between rich and poor.

9 .Macroeconomic Instability:

As a result of ineffective government policies and/or changes in the international economy, macro-economic instability has a devastating effect on economic development. Inflation leads to demands for wage increases that in turn can foster industrial unrest, slowing economic growth and investment. Macroeconomic stabilization polices typically include three features:

1. Limiting inflation
2. Restoring fiscal balance through reduced government expenditures, raising personal and business taxes, and reforming the financial system
3. Eliminating the current-account deficit by devaluing the currency exchange rate and promoting exports.

10. Poor Governance:

Economic development is greatly effected by the quality of government. A country without a government that has an open policy-making process, an effective bureaucracy, published rules, and a transparent regulatory structure will limit economic development.

11. Population Growth:

Economic development begins with the individual. In many parts of the world, the population is growing at rates that make it difficult to provide the population with the education and skills necessary to improve economic output. To overcome this situation, governments need to limit population growth.

12. Restrictions on trade and investment:

Rules and regulations, both official and unofficial, have a significant impact on economic development. Because many developing countries do not have the requisite resources to foster economic growth, both domestic and international investment and trade are necessary for economic development. The flow of capital and goods in and out of countries improves living standards and helps expand local businesses.

14. Educational Impediments:

It is generally accepted that the human resources of a country, not its physical capital or natural resources, ultimately determine the character and pace of economic development. Therefore, a poorly educated and trained workforce limits increases in productivity and competitiveness, slowing economic growth.

15. Environmental Devastation:

In the traditional economic growth model, the cost of destroying the natural resources base was not included in GDP figures. However in recent years, experts have become increasingly aware of links between environmental issues and economic development. Environmental degradation slows economic development by weakening self-sufficiency, increasing health related costs, reducing agricultural productivity, and increasing the gap between rich and poor. In addition to these costs, the destruction of resources lessens future growth potential.

16. Ineffective taxation structure:

- Taxation is often a difficult problem in LEDCs:
- In many countries very little tax revenue is collected and government is forced to raise revenue by printing money or imposing export tariffs which inevitably reduces the incomes of rural people because most LEDCs export raw materials and agricultural products
- A proper income tax system can provide the revenue for govt. and reduce inequality by making the wealthy pay a fair share for running the country

19. Unequal distribution of income:

- Redistribution of assets often does not happen or does not happen fairly (transparently)
- If the most important cause of inequality is an unequal distribution of land, natural resources and capital, attempts must be made to redistribute at least some natural resources such as land
- Land reform can often lead to a dramatic increase in farm productivity and incomes for the rural poor
- Children of the elite have greater access to education and to the best jobs:
- Policies to open access to education for the poor, to reduce absenteeism and improve the quality of education can lead to great increases in productivity

17. Lack of infrastructure:

- Important to attract FDI
- Key to allow access to markets, schools, hospitals, wider world (even if just the capital city/urban area) Rescheduling & Restructuring
- Market mechanisms: supply side measures increase output and investment
- Lower inflation which stabilizes the exchange rate and creates enough confidence that the elite repatriate money lost through capital flight
- Domestic interest rates fall leading to greater domestic investment and an improvement in the economy
- Restructuring simply extends the length of the repayment problem, it does not eliminate the debt

Some causes of economic backwardness:

A. UNEMPLOYMENT
1. THE MARKET WAGE RATE PROCESS
2. THE LABOR UNION WAGE RATE CONCEPT
3. THE CAUSE OF UNEMPLOYMENT
4. THE REMEDY FOR MASS UNEMPLOYMENT
5. THE EFFECTS OF GOVERNMENT INTERVENTION
6. THE PROCESS OF PROGRESS

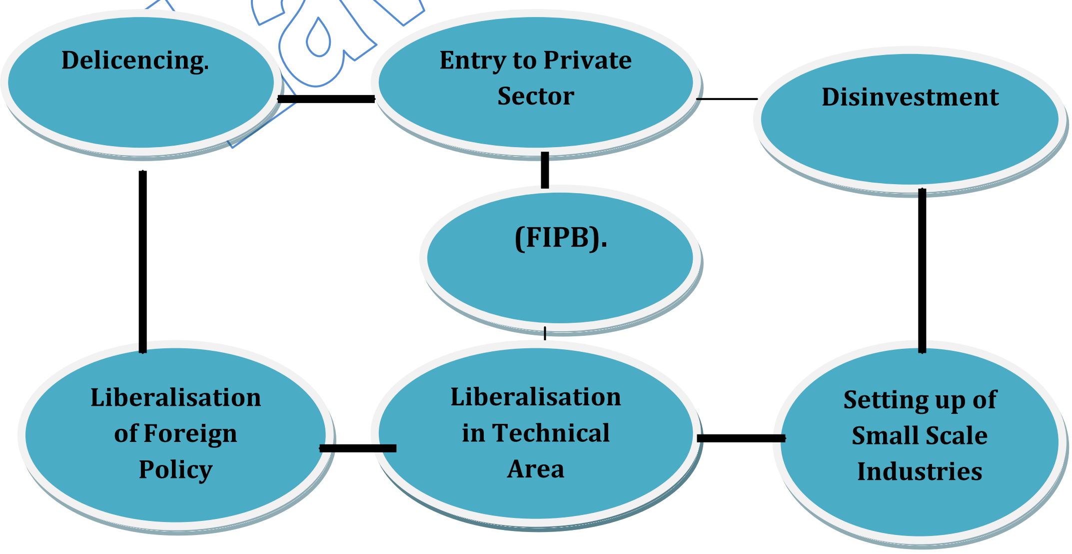
B. PRICE DECLINES AND PRICE SUPPORTS
1. THE SUBSIDIZATION OF SURPLUSES
2. THE NEED FOR READJUSTMENTS

C. TAX POLICY
1. THE ANTI-CAPITALISTIC MENTALITY

D. GOLD PRODUCTION
1. THE DECLINE IN PRICES
2. INFLATION AS A "REMEDIES"

Topic 4: industrial Policy & Economic development

Main characteristics of new Economic Policy 1991:



1. Delicencing. Only six industries were kept under Licencing scheme.

2. Entry to Private Sector. The role of public sector was limited only to four industries; rest all the industries were opened for private sector also.
3. Disinvestment. Disinvestment was carried out in many public sector enterprises.
4. Liberalisation of Foreign Policy. The limit of foreign equity was raised to 100% in many activities, i.e., NRI and foreign investors were permitted to invest in Indian companies.
5. Liberalisation in Technical Area. Automatic permission was given to Indian companies for signing technology agreements with foreign companies.
6. Setting up of Foreign Investment Promotion Board (FIPB). This board was set up to promote and bring foreign investment in India.
7. Setting up of Small Scale Industries. Various benefits were offered to small scale industries.

<u>3 major components of NEP 1991:</u>

Three Major Components or Elements of New Economic Policy:
There are three major components or elements of new economic policy- Liberalisation, Privatisation, Globalisation.

1. **Liberalisation:** Liberalisation refers to end of licence, quota and many more restrictions and controls which were put on industries before 1991. Indian companies got liberalisation in the following way:
(a) Abolition of licence except in few.
(b) No restriction on expansion or contraction of business activities.
(c) Freedom in fixing prices.
(d) Liberalisation in import and export.
(e) Easy and simplifying the procedure to attract foreign capital in India.
(f) Freedom in movement of goods and services
(g) Freedom in fixing the prices of goods and services.

2. Privatisation: Privatisation refers to giving greater role to private sector and reducing the role of public sector. To execute policy of privatisation government took the following steps:
(a) Disinvestment of public sector, i.e., transfer of public sector enterprise to private sector
(b) Setting up of Board of Industrial and Financial Reconstruction (BIFR). This board was set up to revive sick units in public sector enterprises suffering loss.
(c) Dilution of Stake of the Government. If in the process of disinvestments private sector acquires more than 51% shares then it results in transfer of ownership and management to the private sector.

3. Globalisation: It refers to integration of various economies of world. Till 1991 Indian government was following strict policy in regard to import and foreign investment in regard to licensing of imports, tariff, restrictions, etc. but after new policy government adopted policy of globalisation by taking following measures:
(i) Import Liberalisation. Government removed many restrictions from import of capital goods.
(ii) Foreign Exchange Regulation Act (FERA) was replaced by Foreign Exchange Management Act (FEMA)
(iii) Rationalisation of Tariff structure
(iv) Abolition of Export duty.
(v) Reduction of Import duty.

- As a result of globalisation physical boundaries and political boundaries remained no barriers for business enterprise. Whole world becomes a global village.

- Globalisation involves greater interaction and interdependence among the various nations of global economy.

- Impact of Changes in Economic Policy on the Business or Effects of Liberalisation and Globalisation.

Impact of Globalisation

The factors and forces of business environment have lot of influence over the business. The common influence and impact of such changes in business and industry are explained below:

1. Increasing Competition:
After the new policy, Indian companies had to face all round competition which means competition from the internal market and the competition from the MNCs. The companies which could adopt latest technology and which were having large number of resources could only survive and face the competition. Many companies could not face the competition and had to leave the market.

For example, Weston Company which was a leader in T. V. market with more than 38% share in T.V. market lost its control over the market because of all round competition from MNCs. By 1995-96, the company almost became unknown in the T.V market.

2. More Demanding Customers:
Prior to new economic policy there were very few industries or production units. As a result there was shortage of product in every sector. Because of this shortage the market was producer-oriented, i.e., producers became key persons in the market. But after new economic policy many more businessmen joined the production line and various foreign companies also established their production units in India.

As a result there was surplus of products in every sector. This shift from shortage to surplus brought another shift in the market, i.e., producer market to buyer market. The market became customer-oriented and many new schemes were made by companies to attract the customer. Nowadays products are produced/manufactured keeping in mind the demands of the customer.

3. Rapidly Changing Technological Environment:
Before or prior to new economic policy there was a small internal competition only. But after the new economic policy the world class competition started and to stand this global competition the companies need to adopt the world class technology.

4. Necessity for Change:
Prior to 1991 business enterprises could follow stable policies for a long period of time but after 1991 the business enterprises have to modify their policies and operations from time to time.

5. Need for Developing Human Resources:
Before 1991 Indian enterprises were managed by inadequately trained personnel's. New market conditions require people with higher competence skill and training. Hence Indian companies felt the need to develop their human skills.

6. Market Orientation:
Earlier firms were following selling concept, i.e., produce first and then go to market but now companies follow marketing concept, i.e., planning production on the basis of market research, need

and want of customer.

7. Loss of Budgetary Support to Public Sector:
Prior to 1991 all the losses of Public sector were used to be made good by government by sanctioning special funds from budgets. But today the public sectors have to survive and grow by utilising their resources efficiently otherwise these enterprises have to face disinvestment. On the whole the policies of Liberalisation, Globalisation and Privatisation have brought positive impacts on Indian business and industry. They have become more customer focus and have started giving importance to customer satisfaction.

8. Export a Matter of Survival:
The Indian businessman was facing global competition and the new trade policy made the external trade very liberal. As a result to earn more foreign exchange many Indian companies joined the export business and got lot of success in that. Many companies increased their turnover more than double by starting export division. For example, the Reliance Company, Videocon, MRF, Ceat Tires, etc. got a great hold in the export market.

Topic 5: Human capital & human resource development

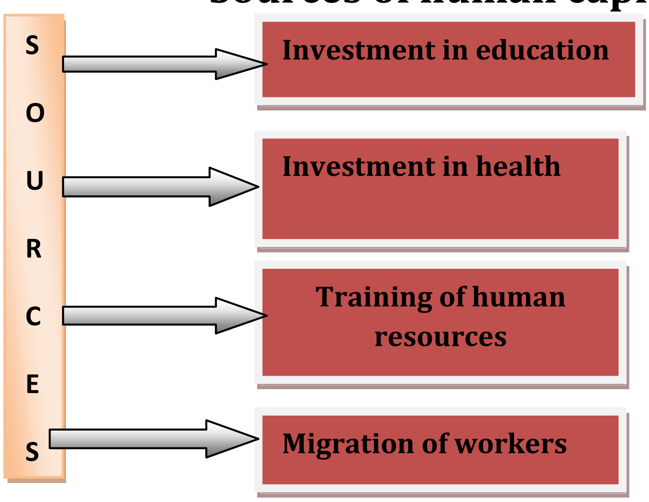
What is human capital?

1) Human capital is the stock of knowledge, habits, social and personality attributes, including creativity, embodied in the ability to perform labor so as to produce economic value.

2) Alternatively, Human capital is a collection of resources—all the knowledge, talents, skills, abilities, experience, intelligence, training, judgment, and wisdom possessed individually and collectively by individuals in a population. These resources are the total capacity of the people that represents a form of wealth which can be directed to accomplish the goals of the nation or state or a portion thereof.

3). Just as a country can turn physical resources like land into physical capital like factories, similarly, it can also turn human resources like students into human capital like engineers and doctors. Societies need sufficient human capital in the first place—in the form of competent people who have themselves been educated and trained as professors and other professionals. In other words, we need good human capital to produce other human capital (say, doctors, engineers…). This means that we need investment in human capital to produce more human capital out of human resources.

Sources of human capital



1) Investment in education

Investment in education is considered as one of the main sources of human capital. There are several other sources as well. Investments in health, on- the job training, migration and information are the other sources of human capital formation. Why do your parents spend money on education? Spending on education by individuals is similar to spending on capital goods by companies with the objective of increasing future profits over a period of time. Likewise, individuals invest in education with the objective of increasing their future income.

2) Investment in health

Like education, health is also considered as an important input for the development of a nation as much as it is important for the development of an individual. Who can work better—a sick person or a person with sound health? A sick labourer without access to medical facilities is compelled to abstain from work and there is loss of productivity. Hence, expenditure on health is an important source of human capital formation. Preventive medicine (vaccination), curative medicine (medical intervention during illness), social medicine (spread of health literacy) and provision of clean drinking water and good sanitation are the various forms of health expenditures. Health expenditure directly increases the supply of healthy labour force and is, thus, a source of human capital formation.

3).Training of human resources

Firms spend on giving on-the job- training to their workers. This may take different forms: one, the workers may be trained in the firm itself under the supervision of a skilled worker; two, the workers may be sent for off-campus training. In both these cases firms incur some expenses. Firms will, thus, insist that the workers should work for a specific period of time, after their on-the-job training, during which it can recover the benefits of the enhanced productivity owing to the training. Expenditure regarding on-the-job training is a source of human capital formation as the return of such expenditure in the form of enhanced labour productivity is more than the cost of it.

4). Migration of workers

People migrate in search of jobs that fetch them higher salaries than what they may get in their native places. Unemployment is the reason for the rural-urban migration in India. Technically qualified persons, like engineers and doctors, migrate to other countries because of higher salaries that they may get in such countries. Migration in both these cases involves cost of transport, higher cost of living in the migrated places and psychic costs of living in a strange sociocultural setup.

5). Expenditure incurred for acquiring information relating to the labour market and other market

People spend to acquire information relating to the labour market and other markets like education and health. For example, people want to know the level of salaries associated with various types of jobs, whether the educational institutions provide the right type of employable skills and at what cost. This information is necessary to make decisions regarding investments in human capital as well as for efficient utilisation of the acquired human capital stock. Expenditure incurred for acquiring information relating to the labour market and other markets is also a source of human capital formation.

Human capital & growth inter-relation:

1). Human capital is "the knowledge, skills, competencies embodied in individuals that facilitate the creation of personal, social and economic well-being."

2). Investing in knowledge skills and competencies will lead to an accumulation of human capital. Some of this investment takes place informally (for example in the home or informal learning using social media and other online resources) whereas other human capital investment flows from formal channels such as education (early years, primary, secondary, tertiary, higher education, lifelong learning) and in the workplace through employer-based training.

3). Economic Growth refers to increase in real national income of country, so the contribution of the skilled person to economy is more that that of an illiterate. So, increase in human capital means increase in economic growth.Economic Growth may be the cause of Human Capital Formation or Human Capital Formation may be the cause of Economic Growth.Both are interdependent.

4). When human capital in an economy is strong, it result in the following :

- There ought to be positive effects on labour productivity / output per person which contributes to higher trend economic growth
- A higher skilled and more flexible labour force will be better able to adjust to changing technologies and changing patterns of demand leading to lower levels of structural employment
- Better human capital ought to lead to higher wages and higher expected lifetime earnings (providing that people are being paid fairly their contribution to economic value) and improved incentives to find work and reduced dependence on the welfare system.
- Stronger knowledge and skills will promote invention and innovation - two further ingredients of long-term growth. Little wonder that there remains a global war for talent among countries seeking to attract the brighest students and workers
- If more people have the skills, qualifications and competencies to remain active in an ever-changing economy, this ought to support progress in combatting high levels of relative poverty and social exclusion.

Positive and negative effects of human growth:

1). Advantage: Industrial, Medical, and Agricultural Innovation
Many of the world's remarkable innovations over the past 300 years are attributable to population growth: More great minds lead to more innovations. Assembly-line manufacturing itself is an adaptation to an increasing population and the need for greater and faster output. More people around the world are living longer lives than even a century earlier thanks to modern medical achievements. And while agricultural resources are a very real concern as the world's population grows, the world's increase in population is responsible for a greater consciousness of the need for additional resources as well as the innovations to produce food at the pace of population growth.

2). Advantage: Economic Growth

A growing population can generate economic growth. The birth of more people equates to a greater number of parents investing in their youth. Increased purchases in products such as food, clothing, education-related expenses, sporting goods and toys feed the economy. Parents with small children purchase larger homes with more bedrooms and bathrooms to make room for their children. The larger homes that parents with children purchase feed the construction and home improvement industries economically. Children then grow into adults who work for pay and spend it in the economy.Following factors cause economic growth due to human growth:

1) All the natural resources in the country will be properly utilised
2) Availability of more labour
3) In a huge population there are many people to pay taxes for the government where they can then establish schools and other public places
4) Companies will have good market for their product
5) The availability of labour is high. This could turn to cheap labour . Both high skilled and low skilled labours will be easily available
6) competition for jobs therefore leading to faster development
7) decreased costs and higher production meaning a higher income
8) greater domestic market, attraction of investors and multinational companies, as well as more workers and more young people energizing the economy
9) Adds diversity to society, creates more responsible and moral citizens in the world, and it contributes to the maintenance of order in society.

3). Disadvantage: Food Shortage

Unchecked population growth without equal agricultural advancement to meet it leads to food shortages. Fortunately, agricultural supply worldwide currently exceeds the demand of the world population. While food shortage is a valid concern of population growth, current research suggests the world population is growing at an increasingly slower rate and several developed nations are experiencing negative population growth. Slowing population growth combined with modern agriculture make it difficult to estimate a point when the population's demand for food outweighs the supply. Food distribution does remain a concern in some areas of the world.

4). Disadvantage: Property Shortage

Although the world population is a long way from being large enough to occupy all of the habitable land on earth, unchecked population growth can inspire overcrowding and civil unrest. Areas with high populations experience this now. In the developed world, however, population growth is waning, leaving fewer risks of property shortages.

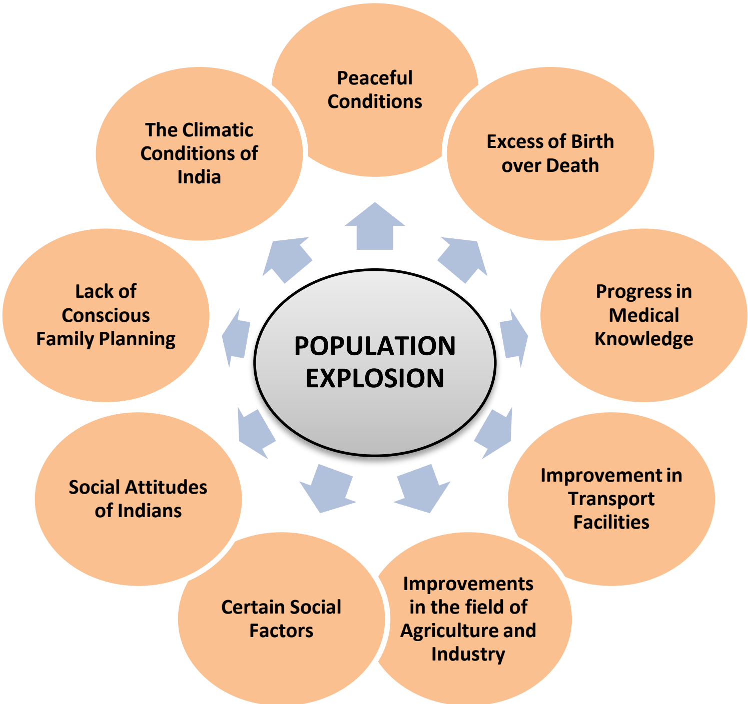
5). Disadvantage: Aging Dependency

The world's growing population includes a large and dependent aging segment. In the United States, the aging population as defined by people over the age of 65 is expected to comprise almost 20 percent of the population by 2030 -- an 80 percent increase from 2000.

Unit – 3
Public & private sector

Topic 1: Causes of Population in India

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 191 I and it decreased to 807 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.

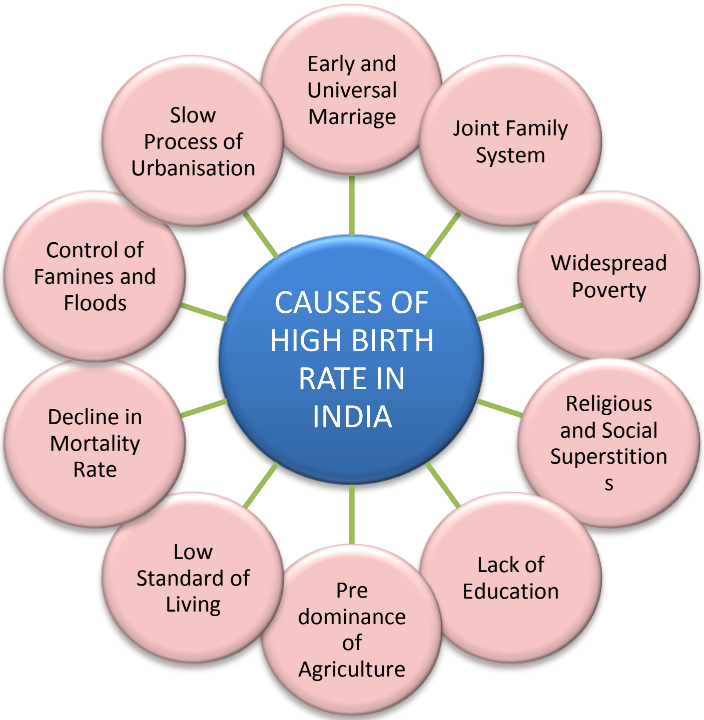
(vii) **Social Attitudes of Indians** also favor an increase in population. Poverty, illiteracy, ignorance, absence of recreational facilities, attitudes of conservatism, orthodoxy, feeling of dependence on God, a sense of resignation towards life, looking upon children as old age pension, etc., are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

Topic-2: Population Policy in India/NPP-2000

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 women 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:

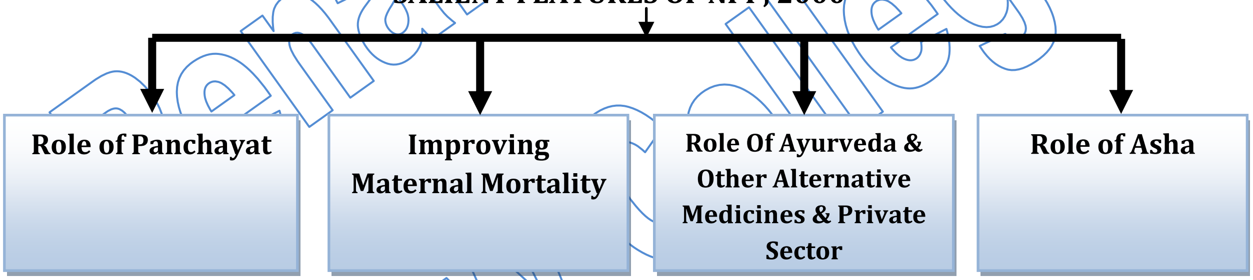
1) Address the unmet needs for basic reproductive and child health services, supplies and infrastructure.
2) Make school education up to age 14 free and compulsory, and reduce drop outs at primary and secondary school levels to below 20 percent for both boys and girls.
3) Reduce infant mortality rate 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 centredprogramme.

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

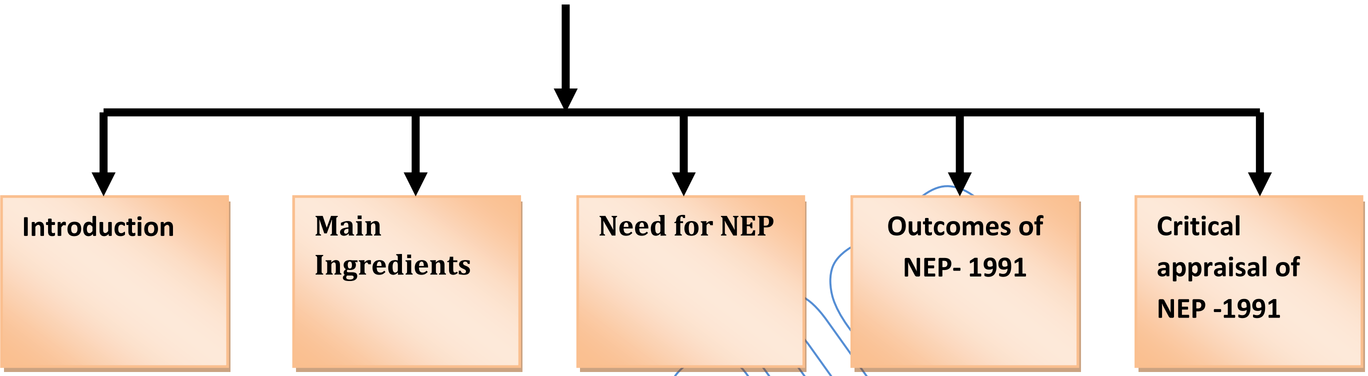
Accredited social health activists (ASHAs) are community health workers instituted by the government of India's Ministry of Health and Family Welfare (MoHFW) as part of the National Rural Health Mission (NRHM).The mission began in 2005; full implementation was targeted for 2012. Once fully implemented, 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 mobilize the community towards local health planning and increased utilization 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 utilization 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 mobilize 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.

Topic 3:I ndustrial policy of India

(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 Monopolices 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 21st 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

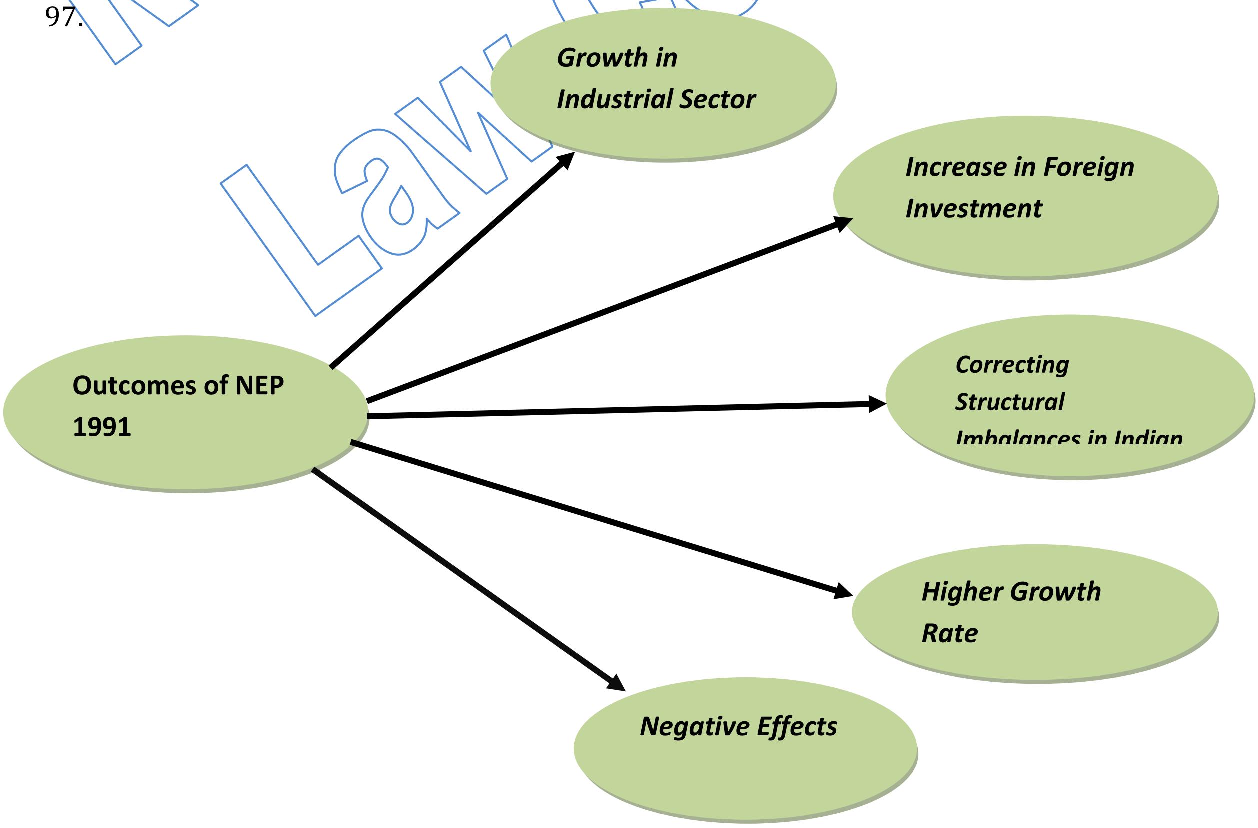
Assessment of New Economic Policy – The economic scenario at that time (1991-92) could best be judged from the following alarming facts:

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 growt 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 in 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.

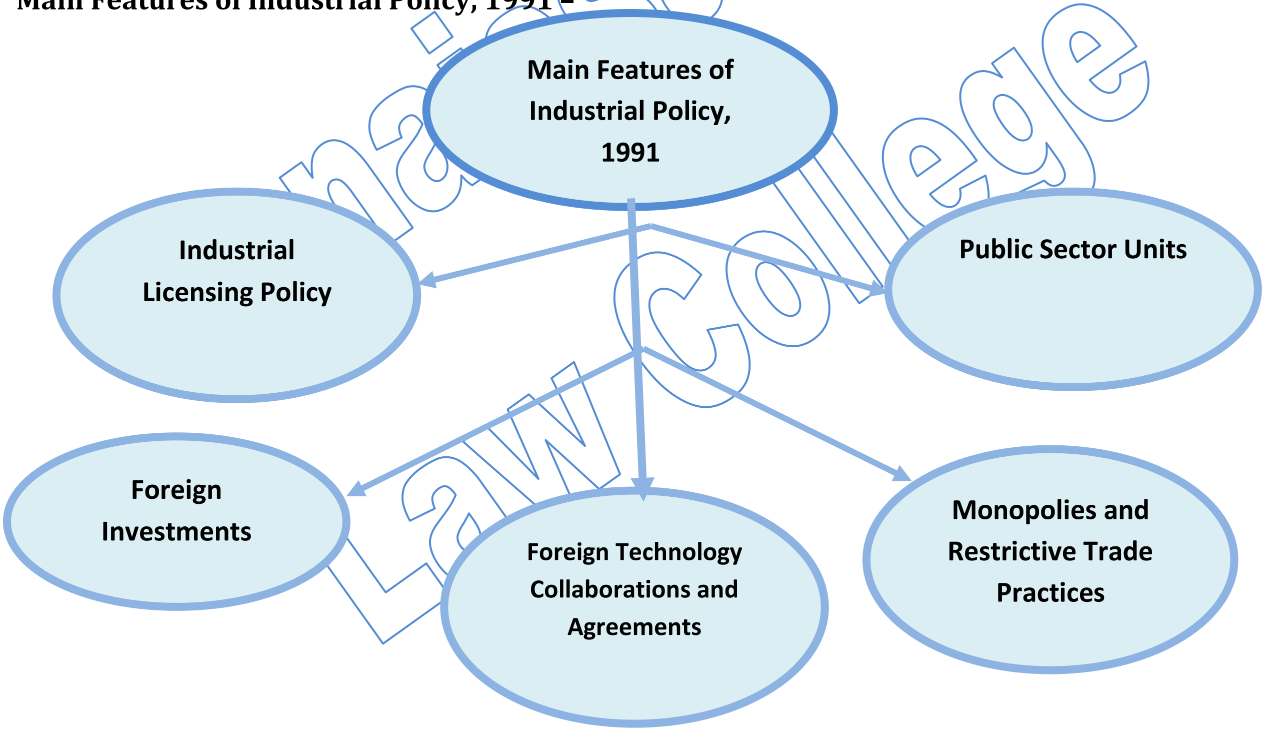
6) Economic sovereignty of India would be in danger and IMF/World Bank and MNCs would dictate terms and conditions to us and we would be in a much work position and more difficult situation in future.

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 –** Inrespect of the above, the following important guidelines have been proposed :

- 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. I 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.
- 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 shareholding 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.

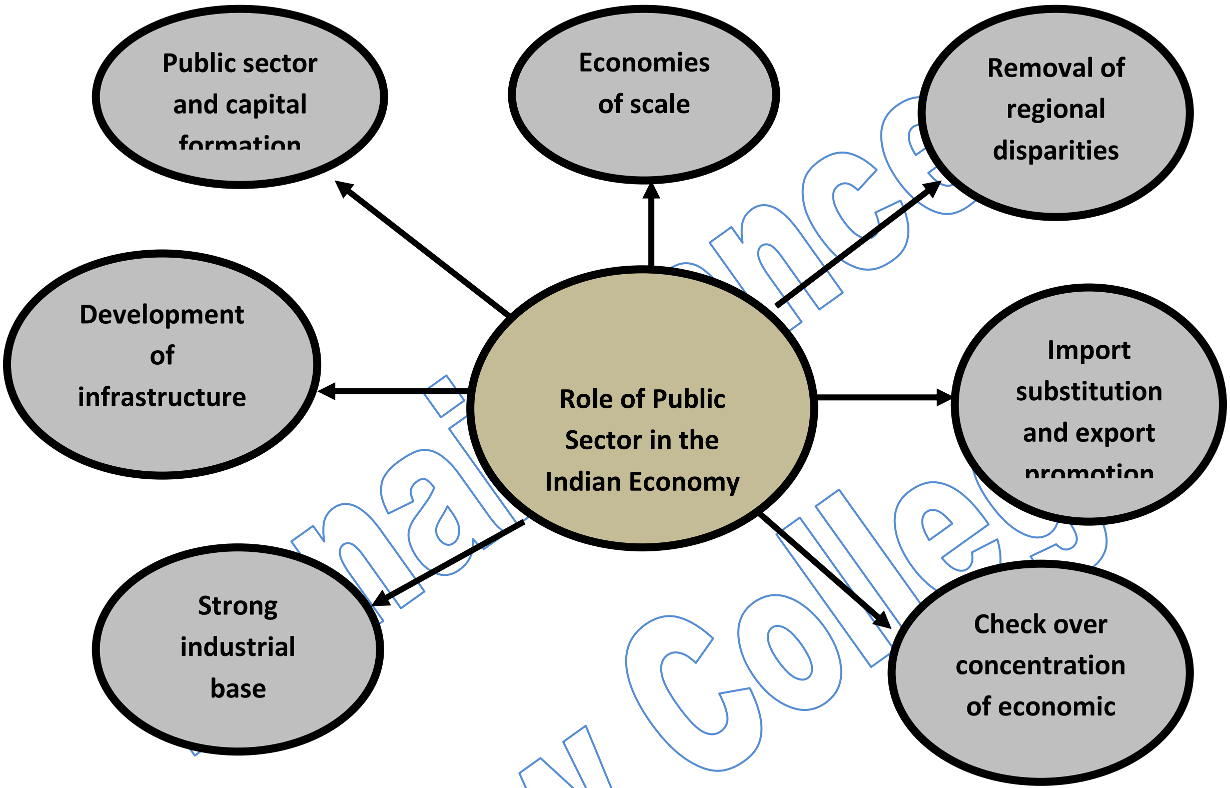
5) **Monopolies and Restrictive Trade Practices**

MRTP Act – The following measures were adopted for companies under MRTP Act:

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

TOPIC 4- 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 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.

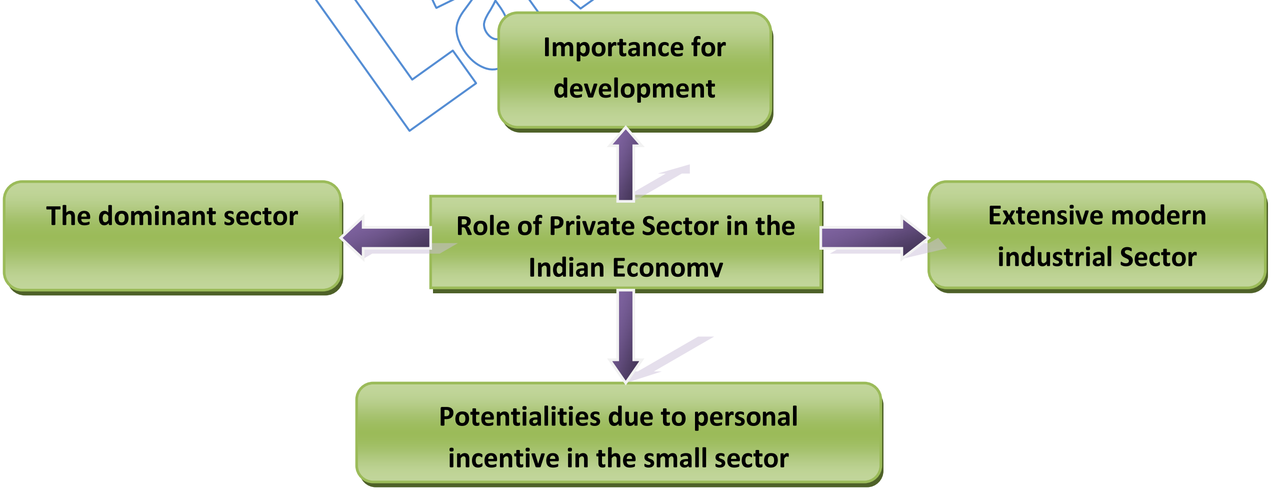
4. Economies of scale: In the case of those industries where for technological reasons, the plants have to be large requiring huge investments, setting up of these industries in the public sector can prevent the concentration of economic; and industrial power in private hands. It is a known fact that; 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 le 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, lost 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 hat 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.

<u>TOPIC 5- ROLE OF PRIVATE SECTOR IN THE INDIAN ECONOMY</u>



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, TataIndicometc 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 6: Privatisation & its justification

Justification of Privatisation

1) One basis rational for privatization in the concept that private ownership leads to better use of resources and their more efficient allocation. Throughout the world, the preference for market economy received a boost after it was realized that the State could no longer meet the growing demands of the economy and the state share holding inevitably had to come down.

2) Another reason for adoption for privatization policy around the globe has been the inability of the Governments to raise high taxes, pursue deficit / inflationary financing and the development of money markets and private entrepreneurship.

3) Further, technology and W.T.O. commitments have made the world a global village and unless industries, including PSEs do not quickly restructure, they would not be able to survive. Public enterprises, because of the nature of their ownership, can restructure slowly and hence the logic of privatization gets stronger. Besides, techniques are now available to control public monopolies by regulation/competition, and investment of public money to ensure protection of consume interests is no longer a convincing argument.

Advantages & need of Privatization are as follows:

(1) Releasing the large amount of public resources locked up in non-strategic PSEs, for redeployment in areas that are much higher on the social priority, such as, basic health, family welfare, primary education and social and essential infrastructure;

(2) Stemming further outflow of these scarce public resources sustaining the unviable non strategic PSEs

(3) Reducing the public debt that is threatening to assume unmanageable proportions.

(4) Transferring the commercial risk, to which the taxpayers' money locked up in the public sector, is exposed, to the private sector where ever the private sector is willing and able to step in.

(5) Releasing other tangible and intangible resources, such as, large manpower currently locked up in managing the PSEs, and their time and energy, for redeployment in high priority social sectors which are short of such resources.

The need for privatisation arises out of the situations like:

(1) Control of budgetary deficit
(2) Resource mobilization
(3) Reduction of extra tax burden
(4) Flow of funds to public
(5) Production increase

(6) Retrieval of civil servants from public enterprises to better utilisation in governance and administration.
(7) Increase in competition, both in domestic as well as international markets.

Based on the recommendations of the Arjun Sen Gupta Committee on Public Sector Enterprise, the privatisation of public enterprises in India can take one of the following forms:

(1) Complete privatisation
(2) Partial privatization
(3) Privatisation of the management
(4) Creating competitive conditions
(5) Deregulation
(6) Delicensing and
(7) Disinvestments and other liberalisation measures.

As a consequence, they must also follow the trend of the overall economic policy, which, in the current context, is heavily tilted towards liberalisation, democratisation, marketisation and globalisation, and a decisive move away from extensive social controls.

Disinvestment:
Definition of 'Disinvestment'
1.The action of an organization or government selling or liquidating an asset or subsidiary. Also known as "divestiture".

2. A reduction in capital expenditure, or the decision of a company not to replenish depleted capital goods.

Investopedia explains 'Disinvestment'

1. A company or government organization will divest an asset or subsidiary as a strategic move for the company, planning to put the proceeds from the divestiture to better use that garners a higher return on investment.

2. A company will likely not replace capital goods or continue to invest in certain assets unless it feels it is receiving a return that justifies the investment. If there is a better place to invest, they may deplete certain capital goods and invest in other more profitable assets. Alternatively a company may have to divest unwillingly if it needs cash to sustain operations.

Objectives of the Disinvestment
Following objectives were stated in July, 1991 while propounding the disinvestment policy:
1). To meet the budgetary needs.
2). To improve overall economic efficiency.
3). To reduce fiscal deficit.
4). To diversify the ownership of PSU for enhancing efficiency of individual enterprise.
5). To raise funds for technological up gradation, modernization and expansion of PSUs.
6). To raise funds for golden shake hand.

Benefits of disinvestment

(1) Disinvestment would expose the public sector companies to market discipline, thereby forcing them to become more efficient and survive on their own financial and economic strength or cease.
(2) Disinvestment would result in wider distribution of wealth through offering of shares of privatised companies to small investors and employees.
(3) Disinvestment would have a beneficial effect on the capital market; the increase in floating stock would give the market more depth and liquidity, give investors easier exit option, help in establishing more accurate benchmarks for valuation and pricing, and facilitate raising of funds by the privatised companies for their projects of expansion, in future.
(4) Opening up the public sector to appropriate private investment would increase economic activity and have an overall beneficial effect on the economy, employment and tax revenues in the medium to long term.

Disinvestment in India

- *The new industrial policy statement 1991 based on economic reform measures envisaged disinvestment of a part of government holding in the case of select public sector enterprises to provide financial support and improve the performance of public sector enterprises.*
- *This became necessary because of the withdrawal of the budgetary support of 60 percent by the government to the loss making units. The Common Minimum Programme of the United Front Government, has also, emphasized that it would be a democratic disinvestment.*
- *Disinvestment Process in India was there in some public sector undertakings. However, now the focus has shifted to strategic sale of the identified public sector units. For the period 1991-2008, the progress of disinvestment has been a normal one.*
- *Against the budgeted disinvestment of Rs.96, 800 cores, only an amount of Rs.51, 609crores approximately could be collected. The pressure of the left party's has largely restricted the pace of disinvestment. Now, we don't have the ministry of disinvestment also.*

Topic 7 : RBI& Monetary policy

Definitions of Monetary Policy:

"A policy employing the central banks control of the supply of money as an instrument for achieving the objectives of general economic policy is a monetary policy."

Prof. Harry Johnson,

"A policy which influences the public stock of money substitute of public demand for such assets of both that is policy which influences public liquidity position is known as a monetary policy."

A.G. Hart,

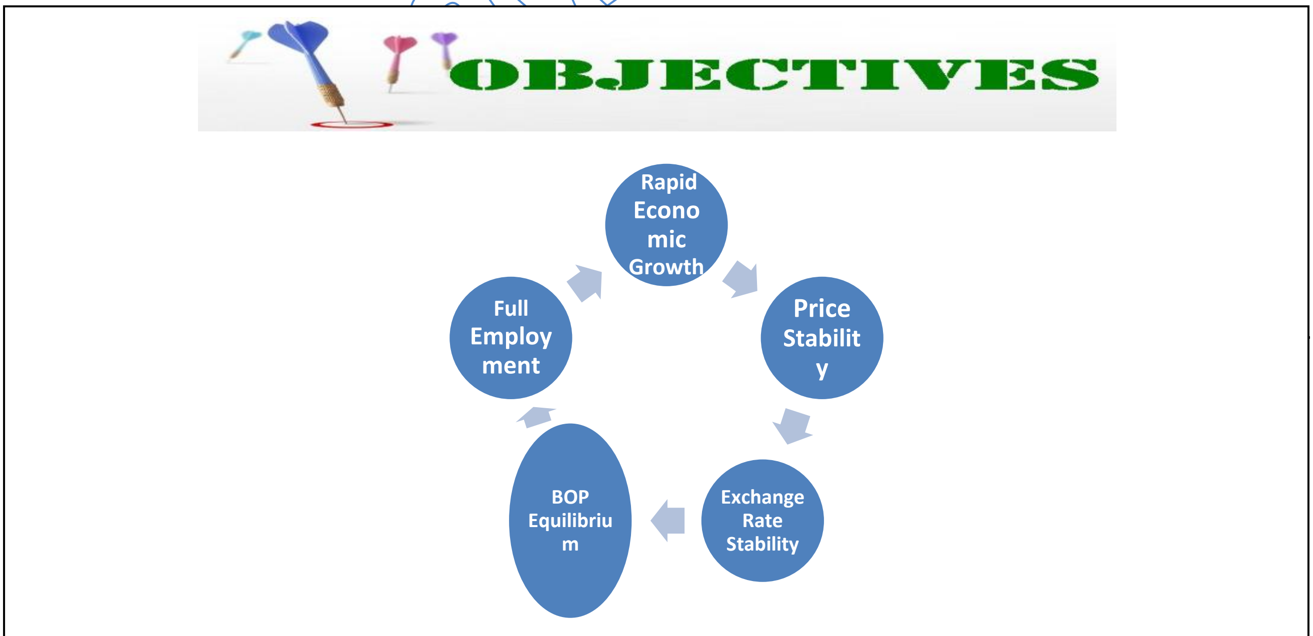
From both these definitions, it is clear that a monetary policy is related to the availability and cost of money supply in the economy in order to attain certain broad objectives. The Central Bank of a nation keeps control on the supply of money to attain the objectives of its monetary policy.

Meaning of Monetary Policy:

The term monetary policy is also known as the 'credit policy' or called 'RBI's money management policy' in India. How much should be the supply of money in the economy? How much should be the ratio of interest? How much should be the viability of money? etc. Such questions are considered in the monetary policy. From the name itself it is understood that it is related to the demand and the supply of money.

Objectives of Monetary Policy:

The objectives of a monetary policy in India are similar to the objectives of its five year plans. In a nutshell planning in India aims at growth, stability and social justice. After the Keynesian revolution in economics, many people accepted significance of monetary policy in attaining following objectives.



policy aims at maintaining the relative stability in the exchange rate. The RBI by altering the foreign exchange reserves tries to influence the demand for foreign exchange and tries to maintain the exchange rate stability.

4). Balance of Payments (BOP) Equilibrium : Many developing countries like India suffers from the Disequilibrium in the BOP. The Reserve Bank of India through its monetary policy tries to maintain equilibrium in the balance of payments. The BOP has two aspects i.e. the 'BOP Surplus' and the 'BOP Deficit'. The former reflects an excess money supply in the domestic economy, while the later stands for stringency of money. If the monetary policy succeeds in maintaining monetary equilibrium, then the BOP equilibrium can be achieved.

5). Full Employment : The concept of full employment was much discussed after Keynes's publication of the "General Theory" in 1936. It refers to absence of involuntary unemployment. In simple words 'Full Employment' stands for a situation in which everybody who wants jobs get jobs. However it does not mean that there is Zero unemployment. In that senses the full employment is never full. Monetary policy can be used for achieving full employment. If the monetary policy is expansionary then credit supply can be encouraged. It could help in creating more jobs in different sector of the economy.

6). Equal Income Distribution : Many economists used to justify the role of the fiscal policy is maintaining economic equality. However in recent years economists have given the opinion that the monetary policy can help and play a supplementary role in attainting an economic equality. monetary policy can make special provisions for the neglect supply such as agriculture, small-scale industries, village industries, etc. and provide them with cheaper credit for longer term. This can prove fruitful for these sectors to come up. Thus in recent period, monetary policy can help in reducing economic inequalities among different sections of society.

Instruments of Monetary Policy - Quantitative & Qualitative Tools:

The instrument of monetary policy are tools or devise which are used by the monetary authority in order to attain some predetermined objectives. There are two types of instruments of the monetary policy as shown below.

(A) Quantitative Instruments or General Tools

- The Quantitative Instruments are also known as the General Tools of monetary policy. These tools are related to the Quantity or Volume of the money. The Quantitative Tools of credit control are also called as General Tools for credit control.
- They are designed to regulate or control the total volume of bank credit in the economy. These tools are indirect in nature and are employed for influencing the quantity of credit in the country.
- The general tool of credit control comprises of following instruments.

1. Bank Rate Policy (BRP)

- The Bank Rate Policy (BRP) is a very important technique used in the monetary policy for influencing the volume or the quantity of the credit in a country.

- The bank rate refers to rate at which the central bank (i.e RBI) rediscounts bills and prepares of commercial banks or provides advance to commercial banks against approved securities. It is "the standard rate at which the bank is prepared to buy or rediscount bills of exchange or other commercial paper eligible for purchase under the RBI Act". The Bank Rate affects the actual availability and the cost of the credit. Any change in the bank rate necessarily brings out a resultant change in the cost of credit available to commercial banks.

- If the RBI increases the bank rate than it reduce the volume of commercial banks borrowing from the RBI. It deters banks from further credit expansion as it becomes a more costly affair

- On the other hand, if the RBI reduces the bank rate, borrowing for commercial banks will be easy and cheaper. This will boost the credit creation. Thus any change in the bank rate is normally associated with the resulting changes in the lending rate and in the market rate of interest.

2. Open Market Operation (OMO)

- The open market operation refers to the purchase and/or sale of short term and long term securities by the RBI in the open market.

- This is very effective and popular instrument of the monetary policy. The OMO is used to wipe out shortage of money in the money market, to influence the term and structure of the interest rate and to stabilize the market for government securities, etc.

- It is important to understand the working of the OMO. If the RBI sells securities in an open market, commercial banks and private individuals buy it. This reduces the existing money supply as money gets transferred from commercial banks to the RBI.

- Contrary to this when the RBI buys the securities from commercial banks in the open market, commercial banks sell it and get back the money they had invested in them. Obviously the stock of money in the economy increases.

3. Variation in the Reserve Ratios (VRR), (CRR & SLR)

- The CRR refers to some percentage of commercial bank's net demand and time liabilities which commercial banks have to maintain with the central bank and SLR refers to some percent of reserves to be maintained in the form of gold or foreign securities, with itself.

- In India the CRR by law remains in between 3-15 percent while the SLR remains in between 25-40 percent of bank reserves.

- Any change in the VRR (i.e. CRR + SLR) brings out a change in commercial banks reserves positions. Thus by varying VRR commercial banks lending capacity can be affected. Changes in the VRR helps in bringing changes in the cash reserves of commercial banks.

- RBI increases VRR during the inflation to reduce the purchasing power and credit creation. But during the recession or depression it lowers the VRR making more cash reserves available for credit expansion.

(B) Qualitative Instruments or Selective Tools

The Qualitative Instruments are also known as the Selective Tools of monetary policy. These tools are directed towards the quality of credit or the use of the credit.

. The Selective Tools of credit control comprises of following instruments.:

1. **Fixing Margin Requirements**

- The margin refers to the "proportion of the loan amount which is not financed by the bank". Or in other words, it is that part of a loan which a borrower has to raise in order to get finance for his purpose.
- A change in a margin implies a change in the loan size.
- This method is used to encourage credit supply for the needy sector and discourage it for other non-necessary sectors. This can be done by increasing margin for the non-necessary sectors and by reducing it for other needy sectors.
- Example:- If the RBI feels that more credit supply should be allocated to agriculture sector, then it will reduce the margin and even 85-90 percent loan can be given.

2. **Consumer Credit Regulation**

Under this method, consumer credit supply is regulated through hire-purchase and installment sale of consumer goods. Under this method the down payment, installment amount, loan duration, etc is fixed in advance. This can help in checking the credit use and then inflation in a country.

3. Publicity

This is yet another method of selective credit control. Through it Central Bank (RBI) publishes various reports stating what is good and what is bad in the system. This published information can help commercial banks to direct credit supply in the desired sectors. Through its weekly and monthly bulletins, the information is made public and banks can use it for attaining goals of monetary policy.

3. **Credit Rationing**

Central Bank fixes credit amount to be granted. Credit is rationed by limiting the amount available for each commercial bank. This method controls even bill rediscounting. For certain purpose, upper limit of credit can be fixed and banks are told to stick to this limit. This can help in lowering banks credit expoursure to unwanted sectors.

5. Moral Suasion

- It implies to pressure exerted by the RBI on the indian banking system without any strict action for compliance of the rules. It is a suggestion to banks.
- It helps in restraining credit during inflationary periods.
- Under moral suasion central banks can issue directives, guidelines and suggestions for commercial banks regarding reducing credit supply for speculative purposes.

5. Control Through Directives

- Under this method the central bank issue frequent directives to commercial banks. These directives guide commercial banks in framing their lending policy.
- Through a directive the central bank can influence credit structures, supply of credit to certain limit for a specific purpose.
- The RBI issues directives to commercial banks for not lending loans to speculative sector such as securities, etc beyond a certain limit.

7. Direct Action

- Under this method the RBI can impose an action against a bank. If certain banks are not adhering to the RBI's directives, the RBI may refuse to rediscount their bills and securities.
- Secondly, RBI may refuse credit supply to those banks whose borrowings are in excess to their capital. Central bank can penalize a bank by changing some rates.
- At last it can even put a ban on a particular bank if it dose not follow its directives and work against the objectives of the monetary policy.

Limitations of RBI monetary policy:

Through the monetary policy is useful in attaining many goals of economic policy, it is not free from certain limitations. Its scope is limited by certain peculiarities, in developing countries such as India. Some of the important limitations of the monetary policy are given below.

1. There exist a Non-Monetized Sector

In many developing countries, there is an existence of non-monetized economy in large extent. People live in rural areas where many of the transactions are of the barter type and not monetary type. Similarly, due to non-monetized sector the progress of commercial banks is not up to the mark. This creates a major bottleneck in the implementation of the monetary policy.

2. Excess Non-Banking Financial Institutions (NBFI)

As the economy launch itself into a higher orbit of economic growth and development, the financial sector comes up with great speed. As a result many Non-Banking Financial Institutions (NBFIs) come up. These NBFIs also provide credit in the economy. However, the NBFIs do not come under the purview of a monetary policy and thus nullify the effect of a monetary policy.

3. Existence of Unorganized Financial Markets

The financial markets help in implementing the monetary policy. In many developing countries the financial markets especially the money markets are of an unorganized nature and in backward conditions. In many places people like money lenders, traders, and businessman actively take part in money lending. But unfortunately they do not come under the purview of a monetary policy and creates hurdle in the success of a monetary policy.

4. Higher Liquidity Hinders Monetary Policy

In rapidly growing economy the deposit base of many commercial banks is expanded. This creates excess liquidity in the system. Under this circumstances even if the monetary policy increases the CRR or SLR, it dose not deter commercial banks from credit creation. So the existence of excess liquidity due to high deposit base is a hindrance in the way of successful monetary policy.

5. Money Not Appearing in an Economy

Large percentage of money never come in the mainstream economy. Rich people, traders, businessmen and other people prefer to spend rather than to deposit money in the bank. This shadow money is used for buying precious metals like gold, silver, ornaments, land and in speculation. This type of lavish spending give rise to inflationary trend in mainstream economy and the monetary policy fails to control it.

6. Time Lag Affects Success of Monetary Policy

The success of the monetary policy depends on timely implementation of it. However, in many cases unnecessary delay is found in implementation of the monetary policy. Or many times timely directives are not issued by the central bank, then the impact of the monetary policy is wiped out.

7. Monetary & Fiscal Policy Lacks Coordination

In order to attain a maximum of the above objectives it is unnecessary that both the fiscal and monetary policies should go hand in hand. As both these policies are prepared and implemented by two different authorities, there is a possibility of non-coordination between these two policies. This can harm the interest of the overall economic policy.

Unit – 4
Foreign Aid

Topic 1: Parallel economy

What is parallel economy:

1) In a general way, we can define black economy as the money that is generated by activities that are kept secret, in the sense that these are not reported to the authorities. As such, this money is also not accounted to (he fiscal authorities i.e., taxes are not paid on this money.

2) According to Global Financial Integrity Study of 2009, $ 1.4 trillion belongs to Indians were parked in safe havens abroad. $ 1.4 trillion is equivalent to Rs. 70 lakh crore, more than India's national income of around Rs. 50 lakh crore.

3) A statement from the Swiss Central Bank declared that Indians have $2.5 billion deposits in various Swiss Banks. It is suspected that the deposits of Indians in tax havens are mostly being withdrawn and shifted to a third country; making it difficult for the government to gather any further details once the accounts are closed.

Causes of black money in India:

Most of the black money in India is believed to be the off-shoot of the tax evasion. In reality, there are more than the specified causes of such black money in India. No doubt, tax evasion is the major cause but there are other causes too to which the government officials pay not attention.

1). High rates of taxation lead to the black income with the people:

High rates of taxation is definitely one of the cause of tax evasion. It is generally a belief in our country that the government officials try to exploit the people through higher rates of taxation (it is true to some extent). Moreover, the people think that the money or the funds raised from such sources by the government is not at all utilized for their benefit. It is distributed among the cabinet ministers of the ruling party illegally. Hence the people find it better to keep the money with themselves rather than giving it to the corrupted ministers.

2). Hawala market as the main cause of black money generation:

It is very well known that the international smugglers or the traders in other illicit trade cannot complete their monetary transactions through any nationalized or other private legal banks in India.

Also, the amount of money in which the drugs and other weapons are imported or exported is quite large, usually in billions. Since, these international traders deal with the smugglers of various countries, they always need to convert their domestic money into the currency of the other country which is only possible through the central bank of the countries. but the central bank while financing such a huge transaction shall definitely ask for a proper report for the transaction. Hence, just like the black market, there is another illegal market dealing in such foreign currency conversions called the "Hawala market". In the hawala market, the foreign exchange rate of Indian rupee 23 to 25% higher than the official market. In other words, the Hawala market converts a dollar into the Indian rupee at 25% higher than the legal monetary market

3). The short era of quantitative and qualitative restrictions imposed on the traders:

In our country, though it is called the mixed economy, the private sector is subjected to too much of control by the government. These controls include the permits, licenses, quotas etc. The trading in permits and licenses has been generating unearned rent or surplus due to the repeated transfer from one trader to another, thus accounting for black income.

4). Transactions in the real estate property:

- Since the sale of property on lease hold is permitted by the government only at a payment of certain amount of premium to it, the lessee generally completes this transaction through the power of attorney so that they escape from paying the premium which is fixed on the basis of the difference between the current market price and the price fixed by the government.

- In case of freehold property or the property in which there is complete transfer of ownership at one go, the black income is generated through the sale of the property at the actual value but registering it at a lesser value than the sale value of that property. Thus, a vicious circle is established in the sale and purchase of different kinds of property. In other words, the pugree system is also another source of black income in the property business. It is both the outlet ad the source of black income as there is net absorption of black income of the seller.

5). Donations to the political parties:

- The big players in the field of business sponsors all the expenses of the political parties relating to the election fight and contests. In return, they ask the political party to relax the stiff laws of the government and the Indian constitution in their favor and also give them concession and incentives without any strong reasons.

- This has created a vicious circle as the ruling party keeps on demanding various form of donations that the business houses regularly provide and the party keeps on giving them the concessions, thus putting a huge burden on the budget of India, sometimes leading to the deficit financing.

6). Inflation - both a cause and consequence of black money

- During inflation there is a general rise in the consumer price index or simply the cost of living of the people. As such, the workers and the various labors in the production process demand a rise in their wages to meet the risen expenditure. This lead the the increase in the cost of production of the producers. They try to meet this increased cost of production by increasing the profits margin through sales price.

- It is to be noted that the rate of increase in the wages in much less than the rate of increase in the profits margin of the producers. But the money income or the wages of the labor are taxed at the source. But the firms have to submit their annual accounting books to the officials on the basis on which the profits are taxed. They can easily manipulate the accounting records by underestimating the sales value and thus, a decline in the gross rate of profits. Inflation increases the effective incidence of black money. The business reduce the burden of tax through tax evasion and under-mention of their rates of profits, while clearly using the extra profits without paying any tax.

7). Deterioration of the quality and morality of the general masses

- The 'License-permit-subsidy' concept has led to the relationship that is too friendly between the civil servants and the officials due to various selfish interests. Those self-interests are in view of the businessmen, foreign investors and other brokers.

- The firms through their professional chartered accountants, income tax consultants are easily able to evade taxes by discovering new loopholes in the judiciary system. Have you ever thought why the CAs are paid higher than any other field in commerce. Yes, it is because they know the provisions of the income tax act and other tax laws well

8). Capitation fees is a very common term used in the context of admissions in big educational institutes and universities. Capitation fess if another term used for the donations given to these universities for the purpose of seeking admissions when the students fails to secure the minimum cut off percentage required. Generally, the money raised by these colleges and institutes through these methods are not revealed to the income tax departments. They are also called the hidden income of these educational temples. Moreover, the amount of capitation fees for big institutes ranges in lakh and not just in thousands.

9). Unawareness of the consumers rights and duties is also another cause for the generation of black money. For example, the consumers fail to take a proper invoice from the shopkeepers so as to evade the tax to be paid on the purchase of that goods. There are more of such instances where the shopkeeper too fool the consumers. Sometimes, they charge more that mentioned as MRP on the packet. They even paste false stickers on the packets to hide the real value of the good. The extra money charged above the MRP is kept by them as black money. They do not pay taxes in such income.

10). Donations to charitable trusts and temples trusts are another source of black income. There are various issues related to the income of these trusts. For example, the trusts of Satya Sai has come under highlights as a vast amount of money has been found and there are no reports as to the sources of these income. It is generally the ignorance of the devotees that prompt such a large amount of donations to these temples.

11). Paying bribes to the government officials for various purposes has become very common in modern times. Paying bribes for obtaining legal sanctions for the illegal immovable property, paying bribes to the traffic constables and others on the violation of the rules and norms etc. are some of the examples of our malicious acts. It is we that prompt and encourage these public servants to accept bribes from the public and exploit them.

Effects of black income

The black money in a developing nations like us has various ill-effects on the people, our political background, our society, infrastructure etc. All the impacts of the black money generation have been discussed here in detail

1). Inflation

- Inflation is both a cause as well as a consequence of the black money in our economy. When there is too much of black money in our economy, people with such large amount of black income generally tens to spend this money extravagantly, thus putting a extra burden on the demand of the goods and the services.

- .Moreover, they people with load of black income tend to buy only luxurious items that shifts the production to these luxurious items. Thus, the resources of the country are wrongly utilized in the production of these commodities rather than necessities. Thus, poor people suffer the most.

2). Speculative investments

- As stated earlier, the corrupted ministers and the people with large amount of black money finds it difficult to keep the hard cash in their home due to the fear of detection. They invest in various places where the rate of return is generally higher such as second hand shares, real estate business, buildings, gold and silver and other financial assets.

- The rocketing prices of the buildings and the flats in the urban areas are both a result and cause of this black income. This type of investments are not good for the country as money is directed into wrong channels. There is no net value added to the productive capacity of the country. Only, the people receive capital gains.

3). Terrorist financing

- It is surprising but it is true that the black money results in the financing of the terrorists activities in our country that results in various black and anti-social attacks such as the bomb explosions, firing and various other activities.

- The terrorists generally keep a track of all the ministers earning money illegally and through corruption. They blackmail such ministers to reveal their personal accounts and their black money if they do not finance their activities. The ministers have not way left but to surrender to their demands. Hawala market also leads to the financing of the terrorism much in the same way as it finances illegal international transactions

4). Improper infrastructure and social welfare schemes

- As more and more taxes are evaded by the corrupt officials and the general public, the government has less of the money to spend on the people's needs and the needs of the society as a whole. Bridges, roads, government schools and hospitals, orphanages, aid to the victims of the natural and man-made disasters, unemployment allowances, pension schemes and many more of such social welfare programs cannot be adequately undertaken by the government.

- Thus, there is an underdeveloped infrastructure in the country that acts as an disincentive for the industrial investments including the foreign direct investments as the private entrepreneurs are not interested to invest in a country whose infrastructure is not very well developed. Less industrial investments in the country enhances the cases of unemployment and leads to the wastage of the human capital.

5). Inequality of income and assets in the society due to black money

- Black money results in the social injustice and fallacy in the economy. The rich gets richer and the poor gets poorer due to two reasons. Firstly, as black money causes inflation in the economy, the poor and middle class family suffers due to hike in the prices of general goods and the rich business class enjoys high rates of returns on their investments.

- Thus it widens the gap of the income between the rich and the poor. It divides the whole economy into the "haves and the have-not".

Policies undertaken by the government to unearth and legalize black money in the Indian economy:

1). Demonetization
It has been one of the oldest weapon in the hands of the government. Under this scheme, the government starts withdrawing the denominations of Rs.1000 and above as most of the people hide their black money in the form of these noted of high value. Demonetization of high denominations came into the system since 1946. It is important to state that demonetization in the year, 1946 was of the value Rs 148 crore as against Rs.1235 crore of the denominations that were in circulation at that time. Hence, it could not be a grand success at that point of time.

2). Voluntary disclosure schemes

- When the government found that the most important cause for the generation of the black money into the Indian economy was the tax evasion guided by a high rates of marginal tax system, it started the voluntary disclosure scheme under which the people themselves shall go the the income tax department and confess the total worth of the black money and the assets.

- In return of this confession, the government granted the tax evaders two benefits: Firstly, it shall immune and shield the guilty from any kind of investigation regarding the sources of the black income and their indulgent in it. Secondly, the rate of taxation on their black income shall be 10% lower than that of the normal ta payers. Thus, this policy acted as an encouragement to the tax evaders to escape from any kind of legal prosecution as well as save tax since they were assured of no investigation.

- Voluntary disclosure scheme of 1951Under this scheme, the total amount of black income withdrawn from the economy amounted to Rs.70 crore. The government was successful in its first attempt to recover the tax upto the tune of Rs.10 crore.

- Voluntary disclosure scheme of 1965: At first, the scheme was redefined as to the rates of marginal taxation of the black disposable income of the people. After much argument, the government fixed it at 60% on the total income of the tax evaders. It gave the government a revenue of Rs.30 crore from the total amounts of Rs.52 crore revealed by the tax evaders.

- Another scheme called the "black scheme" was introduced under which there was not fixed rate of taxation. Just like the present progressive rate of taxation, various slabs were fixed based on the total amount of black income held by the people.
- Voluntary disclosure schemes of 1981: A separate National Housing bank was opened for the tax evaders to give them a chance of earning the income from the conversion of their black money into white.They could deposit the required amount into the back ad they shall not be asked about the sources of raising such funds.. This scheme proved to be quite beneficial for the government and yielded Rs.120 crore.

- **Special bearer bond scheme of 1981**

The government under this scheme allowed the tax evaders to hols special bond of face value of Rs.10000 each with the maturity period of 10 years.

After the expiry of these ten years, the holder of such special bonds shall be entitled to receive Rs.12000 per bonds as against their face value of Rs.10000. These bonds shall have the right of transfer without the bad name of the transferor.

Under this scheme, the black money up to Rs.1052 crore was eliminated and withdrawn from the market and hence, it made it the most successful scheme till that year.

3). Raids

This was the most common means to catch the guilty and the tax evaders and put them behind bars on the spot. The black income earners were caught and arrested on spot on the basis of some intelligence reports received by the government regarding such people. The raids were conducted on the houses and the resident of such people, the business offices and premises to search for the documents that were not revealed at the time of asset declaration. Such raids were quite useful though it lead to mass uprising when the ministers came under this raids. It not only unearthed the black money but also the black assets that were purchased on the basis of such income.

4). Gold bond scheme of 1993

This scheme was very similar to the voluntary disclosure scheme of the previous years with the exception that it was aimed at legalizing the black gold and silver or in other words the gold and silver that were purchased with the help of the black money. Under this method, the people were assured that no questions shall be asked about the process of acquisition of gold or silver.

This scheme was in operation for about three months. It was estimated that the total amount of gold and silver legalized was about 100 to 200 tons.

5). Preventing the inflow of the smuggled gold

Since the prices of the gold and silver in the international market is lower than that prevailing in our economy, it served as an encouragement to smuggle the gold or illegally import the gold in India. This smuggling was an important source of generation of black income. In the year 1993, the government of India tried to liberalize the import of gold in the Indian market through various concessions, customs duty relaxation, duty free imports in exceptional cases etc.

Thus, the prices of gold in the Indian market became more or less equal to that of the international market. It prohibited the smugglers to take sufficient risk in importing the gold illegally

6). Reducing the difference in exchange rate between the official market and the Hawala market

There existed a huge difference between the exchange rates in the Hawala market and the official market for the foreign currencies. The Liberalized Exchange Rate Management system (LERMS) reduced this difference to about 8%. Soon, Unified Market-determined Exchange Rate system tried to put an end to the Hawala market. But still, this system continued to exist in the background of the Indian economy as still, some flexibility is needed in the exchange rate difference.

7). Policy of LPG model of growth

- LPG growth of model meant Liberalization, Privatization and Globalization. Under the liberalization policy of the government, the licensing system, permits, quotas and other restrictions imposed on the private sector was abolished. Thus, it reduced the amount of donations to be given to the civil servants by the business class to get the license easily.

- Under the privatization policy of the government, the new sectors that were previously exclusively reserved for the public sector were opened for the private sector. Only three industries namely railway, atomic power and defense requirements were reserved for the public sector. This made the establishment of the private industries more profitable so that the private sector need not indulge in corrupt and malicious acts.

- In short, liberalization would abolish unearned rent as black incomes. Along with these reforms, the tax reforms were also introduced. There was a moderation of tax rates and improvement in tax compliance.

8). Policy against the black money stored in the Swiss banks

- Much of the credit for the black money in India and the safety of those black income earners goes to the policies of the Swiss banks. The Swiss banks have a policy of not disclosing and revealing the bank account information of their customers to any authority for any purpose whatsoever. It has made the source of attraction for the corrupt ministers, IPS officers and industrialists.

- However, recently the government of India has urged the other nations to put pressure on the Swiss banks to disclose the accounting details of the Indian account holders. As per their reports submitted by the Swiss bank, there is a total of $1.4 trillion of black money related to the Indian accounts. This make India rank first in the list of the black money account holders followed by Russia, Ukraine, USA and China. This value if 13 times the total foreign debt that the country owes to other nations.

- For example, it can monitor the visits of all the VIPs to Switzerland. It is estimated that 80 thousand people visit this beautiful nation every year out of which 40% visit regularly. Thus, there must be a definite purpose for which they are making these frequent visits. These visits can be monitored and then, a proper investigation carried out for such tourists.

Topic 2: Concentration of Economic power

Meaning of Concentration

- The term “concentration of economic power” means the economic position which enables a concern to command control over production or market, exchange or employment in respect of any goods of services.

- C.N. Vakil has defined the term concentration of economic power as “the capacity to influence economic decision affecting the lives of large numbers of people, which is wielded by one pr more persons, who have somehow obtained such capacity. For example, a dictator who has complete political power over his country has also the capacity to take decisions influencing the economic life of the people over whom he rules.

- Economic power may also be concentrated in the hands of a few persons who, because of their control of the production of certain goods are in a position to decide their prices irrespective of the interests of the consumer. Economic power is also concentrated in modern times in the hands of larger, well-organized trade unions or employers, either Government or private in their own interest by joint action and coercion which usually results in deadlock of economic activity”.

Types of Concentration

According to the report of the Monopolies Enquiry Commission, under the chairmanship of K.G. Dasgupta in 1964, there are two types of concentration:

1. **Country- Wise Concentration –** It is a situation where a large number of concerns engaged in the production or distribution of different commodities are in the controlling hands of one individual or family or business group.
2. **Product- Wise Concentration –** It is a situation where the production and distribution of a commodity or service is controlled by a single concern or by a comparatively limited number of concerns which are, in their turn, controlled by a single family or a few families.

Forms-According to MRTP Act

1. **Considerable Share of Productive Capacity –** If an undertakings, either by itself or together with its inter-connected undertaking, has a licensed capacity for the production of any goods which is equivalent to not less then one-fourth of-the total installed capacity in India for the production of such goods, the undertaking wm be deemed to be a dominant undertaking.
2. **Control Over Market** – If an undertaking, either by itself or together with its inter-connected undertakings, controls not less than one fourth of the total supply of distribution of any service in India, it wm be regarded as a dominant undertaking.
3. **Considerable Share of Employment** – The percentage of the total number of workers in the industry employed by a concern is sometimes taken to decide the extent of its economic dominance. For example, prior to the amendment of 1982, the number of workers employed was one of the criteria used by the MRTP Act to describe an undertaking as a dominant undertaking or as a monopolistic undertaking.
4. **Large Assets** – The value of the assets of a concern gives some indication of the economic power it wields. It has been said that, in India, there is a tendency to equate the size of assets with monopoly.

Causes of Concentration

The Monopolies Inquiry Commission (MIC) bas mention the following cases of concentration of economic power:

1. **Growth of Joint Stock Companies & Technological Advances-** The development of the joint stock form of business and the economies of scale arising out of technological advances are among the main causes of the growth of the concentration of economic power. The concept of the corporation has made it possible for contains of industry to use these economies of scale to the greatest advantage by placing themselves in control of large amounts of capital contributed by many.
2. **Inter-Connections** – Inter-company investments, interlocking of directors, mergers. Amalgamation, etc. have contributed to the concentration of economic power.
3. **Inherent Opportunities** – In India, after independence, the very forces which were harnessed to accelerate the pace of industrialization of the country, worked, at the same time, to concentrate power in industry in a few individuals or families who were already wealthy and powerful. The Manalanobes Committee has observed that in part at least the working of our planned economic growth has encouraged this process of concentration by facilitating and aiding the growth of big business.
4. **Assistance From Financial Institutions** – the advantage of big business over small business in obtaining assistance from banks and other financial institutions has also contributed to concentration of economic power. Some big businesses had representatives on the Board of Directors of some of the banks. The Manalanobis committee has observed that the large business houses had an easier access to the capital market, banks, insurance companies and trusts, besides individuals, had a preference for investments in the shares of the big companies. The operation of the economic system, with its criterion of credit-worthiness and security lending, supported the large and established enterprises against the small and struggling enterprises.
5. **Controls** – the system of industrial licensing, import restrictions, exchange controls, etc. has helped big business by restricting the freedom of entry. Big business groups were in a comparative advantageous position as the licensing authority preferred men of proven business ability. Prof. Hazari has observed that the chronological principle, i.e. first come first served, followed in the sanction of industrial licenses enable big business to corner them. Big business house attempted to pre-empt capacity by obtaining multiple licenses for the same

product. The ability of big businessmen to secure foreign collaboration was a reason for their success in setting new licenses.

6. **Managing Agency** – Supplying managerial skill in different from and diverse was the managing agency system has proved a fruitful source of concentration of economic power.

Remedial Measures

1. Regulation of Private Business

(i) **The MRTP Act –** It has been designed with the main objective of the prevention of concentration of economic power to the common detriment, and the control of monopolistic and restrictive trade practices that are prejudicial to public interest. It provides that mergers, amalgamation, take-overs, and substantial expansion by dominant and large undertakings can only be effected with the prior approval of the Government.

(ii) **The Companies Act –** It empowers the Government to regulate the formation of managerial, administrative and financial integration and inter company investments.

(iii) **The Industries (Development and Regulation) Act (IDRA) –** It empowers the Government to regulate the establishment of new undertakings, substantial expansion of the manufacture of a new article, etc and to regulate or restrict the role of different categories of undertakings-private, joint and cooperative, and small and large. It empowers the Government to exercise control over the management or to take over the management of any undertaking in the public interest.

(iv) **The Essential Commodities Act –** It empowers the Government to regulate the quality and quantity of output, price and distribution of any commodities that may be notified by it. The nomination of Government representatives or of those of financial institutions on the management board of industrial undertakings and the power of financial institutions to exercise the convertibility option have also been designed to regulate the functioning of the large private sector undertakings.

(v) **The Capital Issues (Control) Act and Securities Contracts (Regulation) Act –** It empowers the Government to regulate the financing and capital structure of private cooperate enterprises and to influence the ownership pattern of the share capital. The new guidelines for listings securities, announced in November 1982, aim at preventing undue concentration of shares in a limited number of hands.

2. Encouragement of Small & New Entrepreneurs – To encourage small and new entrepreneurs and to restrict the role of the large industrial houses, the Licensing Policy announced in 1970 made it clear that the role of the large industrial houses would be restricted mostly to the core and heavy investment sectors. The role of the large-scale sector was further restricted by reserving a large number of items for exclusive manufacture in the small-scale sector.

3. Expansion of Public, Co-operative & Joint Sectors – The major objectives of the public sector include control of the commanding heights of the economy and effective competition to the private sector. According to the Industrial Policy Resolution, the future development of the most important 17 industries has been the exclusive right of the state; and in 12 other industries, the state is to play an active role. Further, the state has the right to enter any other industry. Thus, the public sector has been assigned a dominate role. This role has been expanding in the distribution of essential goods. It is demanded that the public sector should enter the consumer goods sector in big way. The growth of co-operative sector will reduce the concentration of economic power.

4. Ceiling on Property – Ceiling on income and property also prevent concentration. It may, however, discourage hard work, investment and growth.\

5. **Progressive Taxation –** Progressive taxation can also check the concentration of economic power, though high ratio of tax may become a disincentive for investment and encourage tax evasion.

6. **Other Measures**

(i) Liberalization of Imports;
(ii) Non acceptance of financial and other assistance by political parties from business houses;
(iii) Consumer association to protect the right of consumers, and
(iv) Abolition of corruption from administrative machinery.

Topic 3: Democracy & political corruption

What is Democracy?

- Democracy is a system of government in which all citizens of that country have an equal say and vote in decisions that will affect their lives. It promotes freedoms, rights and the ability to decide for one's self political determination. Although democracy relies on having a single person or small group of people in charge of everything, it differs from the traditional sense of monarchy or dictatorship in that the people control their leader, not the other way around, and there are acceptable ways to have a leader put out of government without revolution or by force.

- Ever since the very beginning of democracy, freedom and equality have been the main principles it is built upon. Other basic ideals and values include reaching a decision by majority rule. This ensures that most of the country (because not everyone can be happy with every decision) is speaking up for what they want. Also, freedom of speech, of religion, and of political decisions is at the core of the government, because citizens are adequately educated about their choices, and they are free to vote as they see fits best.

What is Political Corruption?

- This occurs when political officials misuse their governmental power for personal gain. Anything that is done by an official that directly relates to their duties in office. Other illegal activities such as police brutality or repression of other political enemies are not under this name.

- When a country's leaders become corrupt, they not only bring harm to themselves and their people but to neighboring countries and allies as well. Depending on the democracy and political corruption and the scale of the deceit, this can have large ramifications on other countries and people that are affected by this country.

- When leaders in politics become corrupt, they are selfishly pursuing their own gain and thus should not be in parliament. Eventually they will be found out and hopefully eradicated from their place of power, otherwise the corruption will spread to include more and more players and could possibly contaminate the entire country's future and faith in its leadership.

Effects of Corrupted Government

1) In the business realm, leadership corruption will increase the costs of doing business, because of unauthorized payments and transactions that are likely going on.
2) For countries that have smaller income per capita, corruption is more common because these people have to rely on other countries for their aid and materials
3) Even with environmental protection laws in place, they won't do what they were intended to do if the officials in charge are easily accepting bribes from factories and companies.
4) Improper use or "trading of influence" is often used by leaders who want to get what they want by using their power, social standing, or reputation to influence a third party.

Topic 4: Need & impact of foreign aid

What is Foreign capital/Aid

- Foreign capital takes two main forms: (1) private foreign investment and (2) foreign aid. Private foreign investment can either be direct foreign investment or indirect foreign investment.

- As far as direct foreign investment is concerned, the private foreign investor either sets up a branch or a subsidiary in the recipient country. Of particular importance has been the increasing role being played by the multinational corporations (MNCs) in the underdeveloped countries. These corporations have set up a large number of branches and subsidiaries in these countries and have brought with them new technological expertise, machinery and equipment, better management and organization, superior marketing techniques etc.

Advantage of Private Foreign Investment

1. Private foreign investment goes directly into capital formation and thus it constitutes a net addition to investible resources in the recipient country. Thus it helps in pushing up the rate of growth of the economy.
2. Being subject to business calculation of private profit it is likely to be employed more productivity as compared to public financial aid.
3. When made available in the form of direct business investment (as in the case of investment by MNCs), foreign private investment promotes the spread of modern technology and efficient management methods.
4. Foreign investment may also induce more domestic investment. For instance, ancillary domestic units can be set up to 'feed' the main industrial unit set up by the foreign investor.
5. By setting an example, and though the training that they sponsor, foreign direct investments (as by MNCs) contribute to the transfer of technology to the underdeveloped countries and in encouraging the growth of skills.
6. Since returns on foreign investment are linked to the profits earned by the firm, it is more 'flexible' as compared to foreign loans which are guided by rigid interest and amortization requirements.
7. Foreign investment results in a pattern of growth which is desirable from the point of view of underdeveloped countries since new products are introduced and marketed, taste tastes are created, and specific needs of the recipient country are met.
8. There is frequently an acute shortage of entrepreneurs in the developing countries. This creates obstacle in the programmes of industrialization. An argument advanced in favor of foreign investment is that it undertakes the initial 'risk' of investment in the host countries and thus provides the much needed impetus to the process of industrialization. Once the progamme of industrialization gets started with the help of foreign investment, domestic industrial activity starts picking up as more and more people of the host country enter the industrial field.
9. Private foreign investment helps in the development of infrastructure in the developing countries through the setting up of power plants, expansion of transport and communication facilities, etc.
10. Free flow of capital is conducive both to total world welfare and to the welfare of each individual country. The operations of foreign firms, especially of modern multinational firms, knit countries together and closer into the web of international commerce, both by economic integration by the transaction of taste, design, ideas and technology.

Policy towards Foreign Investment in Pre-Reform Phase

1. **No discrimination between foreign and Indian capital-** The Government of India will not differentiate between the foreign and Indian capital. The implication was that the government would not place any restrictions or impose any conditions on foreign enterprise which were not applicable to similar Indian enterprise.
2. **Full opportunities to earn profit-** The foreign interests operating in India would be permitted to earn profits without subjecting them to undue controls. Onlkuy8 such restrictions would be imposed which also apply to the Indian enterprise.
3. **Guarantee of compensation-** If and when foreign enterprises are compulsorily acquired, compensation will be paid on a fair and equitable basis as already announced in government's statement of policy.

Policy towards Foreign Investment in Post-Reform Phase

Some important measures announced for promoting foreign investment in the post-reform period (i.e. the period since 1991) are as follows:

1. In 1991, the government announced a specified list of high technology and high-investment priority industries wherein automatic permission was granted for foreign direct investment (FDI) upto 51 per cent foreign equity. The limit was raised from 51 per cent to 74 per cent and subsequently to 100 per cent for many of these industries. Moreover, many new industries have been added to the list over the years.
2. Prior to 1991 the government generally8 discouraged foreign equity holdings in service areas except for hotels. The 1991 policy invited foreign equity holding upto 51 per cent by international trading companies. In addition to hotels, 51 per cent equity was also allowed in other tourist related areas.
3. To hasten the progress in the ailing power sector, the government (in a policy decision announced on July 31, 1991) allowed 100 per cent foreign equity participation for setting up power plants in the country. Hundred per cent foreign equity participation allows free repatriation of profit and other incentives.
4. NRIs and overseas corporate bodies (GCBs) predominantly owned by them, have been allowed to invest upto 100 per cent equity in high-priority industries. These investments through the automatic approval route of RBI have full benefits of capital repatriation.NRI investment upto 100 per cent of equity is also allowed in export houses, trading houses, star trading houses, hospital EGUs, sick industries, hotels etc.
5. Foreign citizen of Indian origin are now permitted to acquire house property without the permission of the Reserve Bank of India.
6. Foreign companies have been allowed to use their trade marks on domestic sales from May 14, 1992.
7. Foreign equity investments in Non-Banking Financial Companies (NBFCs) have been permitted in various categories of NBFC activities such as merchants banking, stock broking, venture capital, housing finance, foreign exchange broking, leasing and financing, financial consultancy etc.
8. Foreign investors can set up 100 per cent operating subsidiaries (without any restriction on number of subsidiaries) without the condition to disinvest a minimum of 25 per cent of their equity to Indian entities, subject to bringing in US $ 50 million.
9. In the process of liberalization of FDI policy, the following policy changes have been made: (i) 100 per cent FDI permitted for business to business e-commerce; (ii) removal of cap on foreign investment in the power sector; and (iii) 100 per cent FDI permitted in oil refining.

10. FDI upto 100 per cent is allowed with some conditions for the following activities in the telecom sector: (i) Internet service providers (ISPs) not providing gateways; (ii) Infrastructure providers providing dark-fiber; (iii) electronic mail; and (iv) voice mail.
11. FDI cap has been increased from 49 per cent to 74 per cent in basic and cellular telecom service. The revised cap includes both FDI and portfolio investment.
12. Foreign firms have been allowed to pay royalty on brand name/trade mark as a percentage of net sales in case of technology transfers.
13. FDI upto 26 per cent is eligible under the automatic route in the insurance sector, as prescribed in the Insurance Act, 1999, subject to their obtaining license from Insurance Regulatory and Development Authority (IRDA).
14. FDI upto 100 per cent is permitted in airports, with FDI above 74 per cent requiring prior approval of the government.
15. FDI upto 100 per cent is permitted with prior approval of the government in courier services subject to existing laws and exclusion of activities relating to distribution of letters.
16. FDI up to 100 per cent is permitted with prior approval of the government for development of integrated townships and regional urban infrastructure, tea sector (including tea plantation), advertising and films.
17. FDI up to 100 per cent permitted o the automatic route in hotel and tourism sector and for Mass Rapid Transport Systems in all metropolitan cities, including associated commercial development of real estate.
18. The defense industry sector has been opened upto 100 per cent for Indian private sector participation with FDI permitted upto 26 per cent, both subject to licensing.
19. In January 2004, the government raised FDI limit to 100 per cent in petroleum sector. For example, FDI up to 100 per cent was allowed in petroleum product marketing through automatic route (raised from 74 per cent); FDI upto 100 per cent was allowed for petroleum products pipelines and for natural gas/LNG pipelines (raised from 51 per cent); and FDI upto 100 per cent was allowed through automatic route in oil exploration both in small and medium sized fields.
20. In January 2004, the government allowed FDI upto 100 per cent in printing scientific and technical magazines, periodicals and journals.
21. Foreign investment in the banking sector has been further liberalized by raised FDI limit in private sector banks to 74 per cent under the automatic route including investment by FIIs (foreign institutional investors).

Foreign Investment Inflows Since 1991: A Critical Appraisal

1. While the FDI approval reveal a quantum jump since the liberalization of policy in 19991, the actual inflows have been much less. Thus the foreign investors have not matched their intent with performance.

2. According to Nagesh Kumar, the expansion in the magnitude of FDI inflows during 1990s is not due to reform alone. It reflects, in part, the dramatic expansion in the global FDI flows to developing countries (from about $ 35 billion per year on average during 1987-92 to $166 billion in 1998 and $ 648 billion in 2004).

3. A worrisome feature is the nature of development of foreign resources. A substantial part of these resources is not going into fresh capital formation but in mergers and acquisitions. According to Nagaraj, almost 40 per cent of the inflows seem to have been used for acquiring existing industrial assets, and their managerial control.

4. Delhi, Maharashtra, Dadra and Nagar Haveli, Daman and Diu, Haryana, selected parts of Uttar Pradesh and Karnataka have received more than half of FDI inflows. A large part of the country

has received only negligible parts of such inflows. Thus FDI has accentuated regional disparities still further.

5. Nagaraj has estimated that over two-thirds of the total value of FDI approvals has gone to projects of size greater than Rs. 100 crore. Thus, relatively smaller projects received a very small proportion of FDI approvals. From this observation, Nagaraj concludes that "very little of the FDI has gone to augment exports that are mostly from labour-intensive unregistered manufacturing.

6. While the actual FDI inflow in India in the 1990s increased significantly as compared with the pre-1991 period, it was insignificant in comparison to China. According to report on Currency and Finance, FDI inflows to China in 1990s were ten times of the inflows to India. While India ranked 122nd in UNCTAD's FDI Performance Index, China was placed much higher at the 54th position. A part of the difference in FDI inflows between India and China is because of definitional and conceptual issues as there has been underestimation of FDI in India.

7. Deployment of foreign private resources is largely in 'white goods sector, in automobiles and other luxury items catering to the needs of rising upper middle and rich classes. Share of investment in strategically important high-tech sectors and in consumer goods industries catering to the needs of the poor are not significant.

8. An important objective of promoting FDI has been to promote efficiency in production and increase exports. However, as correctly pointed out by C.P. Chandrasekhar and Jayati Ghosh, any increase in the equity stake of the foreign investors in existing joint ventures or purchase of a share of equity by them in domestic firms would not automatically change the orientation of the firm. That is, "the aim of such FDI investors would be to a benefit from the profit earned in the Indian – market. As a result, in such cases FDI inflows need not be accompanied by any substantial increase in exports, whether such investment leads to the modernization of domestic capacity or not."

Potential Problems of Foreign Direct Investment

1) Gives multinationals controlling rights within foreign countries. Critics argue powerful MNCs can use their financial clout to influence local politics to gain favorable laws and regulations.

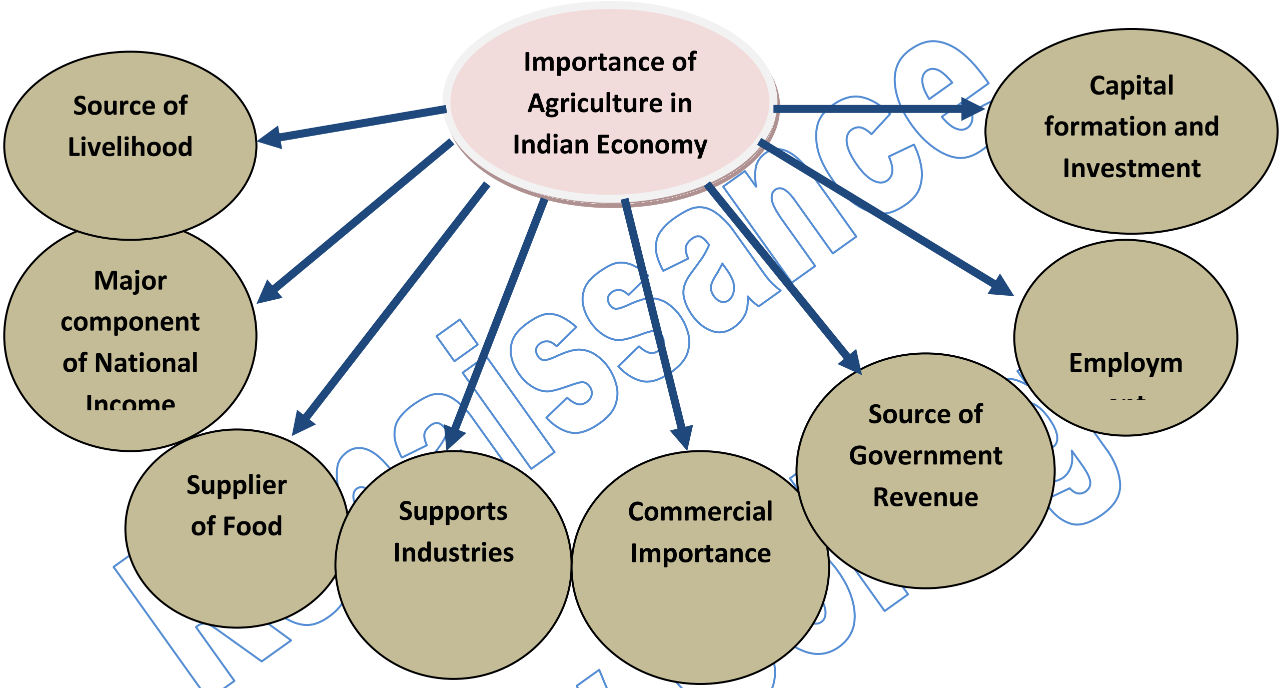
2) FDI may be a convenient way to bypass local environmental laws. Developing countries may be tempted to compete on reducing environmental regulation to attract the necessary FDI.

3) FDI does not always benefit recipient countries as it enables foreign multinationals to gain from ownership of raw materials, with little evidence of wealth being distributed throughout society.

4) Multinationals have been criticized for poor working conditions in foreign factories (e.g. Apple's factories in China)

Unit – 4
Economic development & its Impact

Topic-1: 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:

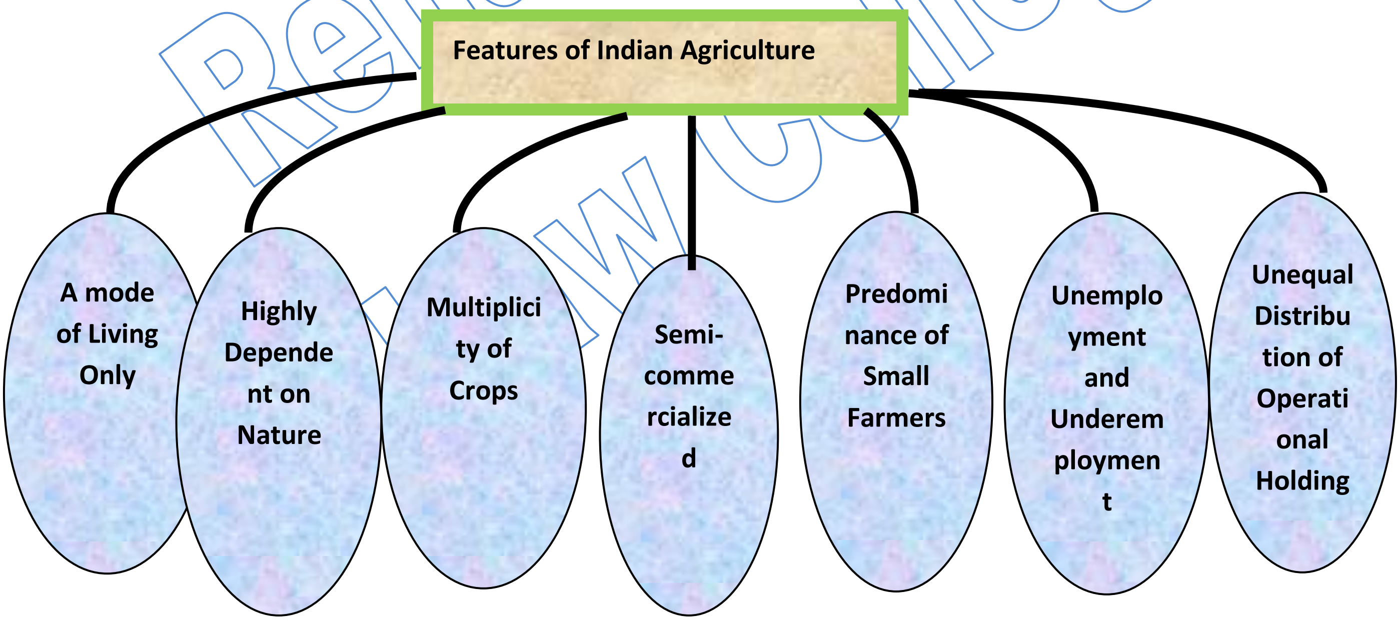
1) **Source of Livelihood**—About two-third (65 percent) dour working population is engaged directly in the cultivation of land and, when we take into account the people who are indirectly dependent upon agriculture, the ratio rises to more than even three-four.
2) **Major component of National Income**—he 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 county'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 sliding 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 urn 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 front 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 –



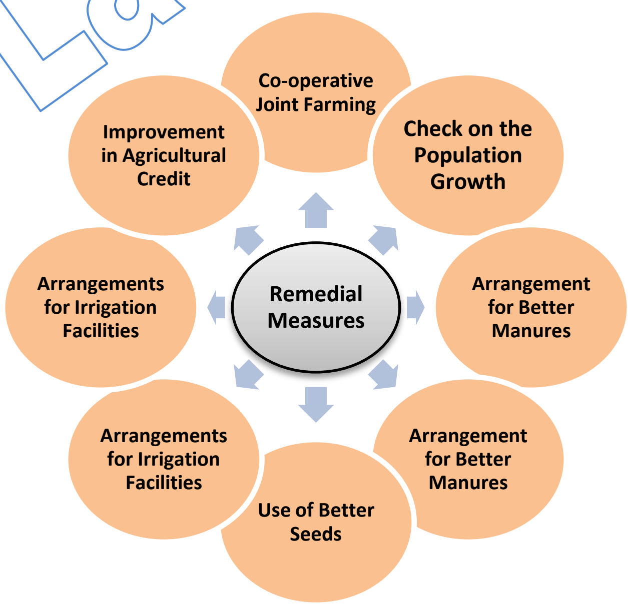
1) **A mode of Living Only** – Agriculture is a mode of living rather than a business proposition for the Indian farmer. In other countries it is a business proposition for those who adopt it. In India people are pushed to it, while in other countries they are pulled towards it. That is the basic difference.
2) **Highly Dependent on Nature**—The dependence of agriculture or 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 I 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 shortcoming

Remedial Measures



1) **Co-operative Joint Farming**—Small uneconomic plots can be pooled lo 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 folder 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 he 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 largo 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 -2 Reasons of backwardness Indian Agriculture

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

Reasons of backwardness of Indian Agriculture

- **Excess or Surplus Labour in Agriculture**
- **Defective Land Tenurial Structure**
- **Poor Inputs and Techniques**
- **Lack of Non-Farm Services**
- **Inadequate Irrigation Facilities**
- **Institutional Shortcomings**
- **Unfavourable Rural Atmosphere**
- **Inadequate Research**
- **Indebtedness of the Farmers**
- **Scattered and Fragmented Holdings**

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 rage and storage. All these facilities are inadequate in India.

Marketing system is defective and costly. Transport facilities are inadequate and inefficient. Modem 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 u 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 am 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 framing methods have yet to take roots in the countryside
9) **Indebtedness of the Farmers**—It is said that the farmers in Indi; 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 a 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 for too small for economic farming. Besides, the holdings are scattered. This make, 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

Topic 3: Economic History During British Rule

1). Education:

- Initially, the East India Company did not think that it was its duty to impart education to Indians. It allowed the old system of education to continue. Pathsalas, which imparted a special type of education geared towards meeting the requirements of a rural society, were open to all. Sanskrit education was imparted in tols. Muslims attended Madrasas. Higher education was confined primarily to upper castes. This system of education was eventually changed by the British.

- Around the beginning of the 19th century, the Company became aware of the need for introducing Western education in India. However, Christian missionaries, who were interested in spreading Christianity through education, had already established several educational institutions which were attached to their churches.

Charter Act of 1813:

- The Charter Act of 1813 directed the Company to spend one lakh rupees on the education of Indians. But even this meagre amount could not be utilised because of a raging debate over the medium of instruction. Orientalists advocated the traditional Indian learning through the medium of the classical languages of Sanskrit and Perisan. The Anglicists, on the other hand, argued that Western education should be imparted through the medium of English.
- Thomas Macaulay, the first law member in the Governor General's Council, promoted the English language as a tool for educating the people in Western thought and ideals (Macaulay's Minute of 1835). William Bentinck supported Macaulay's views. In 1835, the government passed an Act declaring that educational funds would be utilised for imparting Western education through the medium of English.
- In 1844, English became the official language and it was declared that people having knowledge of English would be preferred for public employment. This helped the spread of English education in India. In 1854, Charles Wood, the President of the Company's Board of Control, worked out a plan for educational reorganisation. Through the Wood's Despatch the Government declared its intention of "creating a properly articulated system of education from the primary school to the university".

2). Impact in the area of transport and communication:

- The East India Company was primarily a trading concern. Commercial interests guided British policy in India. Though the Company's political domination increased, its trading interests were never lost sight of. As the Industrial Revolution gained momentum, the manufacturing class became very powerful in England.

  They now wanted the government to promote the sale of machine- manufactured British goods, especially British textiles. At the same time raw materials were imported from India to feed the growing needs of British industries.
- Instead of exporting manufactured products, India was now forced to export raw materials like raw cotton and raw silk and plantation products like indigo and tea, or foodgrains which were in short supply in Britain. The demands of an industrialised England necessitated better communication facilities in the colonies.
- Up to the middle of the 19th century, the means of transport in India were backward. Goods were transported by road mainly by bullock-carts, mules and camels. Riverine transport by boats was also prevalent. Due to poor communication and slow transport the volume of trade was restricted.
- The British rulers soon realised that a cheaper, faster and more efficient system of transport was necessary if British manufactured goods were to flow into India on a large scale and her raw materials were to be secured for British industries.

- They introduced steamships on the rivers and set about improving roads. Work on the Grand Trunk Road from Calcutta to Delhi was begun in 1839 and completed in the 1850s. Important commercial centres and areas rich in raw materials were connected by a network of roads and canals. But the most dramatic improvement in transport came with the introduction of the railways.
- A railway system had rapidly developed in England during the 1830s and 1840s. Pressure soon mounted for its introduction in India. British manufacturers hoped to open up the vast and hitherto untapped market in the hinterlands for their finished goods and to facilitate the import of Indian raw materials to feed their ever hungry machines.
- British bankers and investors also looked upon the development of the railways in India as a channel for the safe investment of their surplus capital. British steel manufacturers regarded it as an outlet for their products like rails, engines, wagons etc. The first railway line from Bombay to Thana was opened to traffic in 1853.
- However, in their planning, construction and management, there is nothing to suggest that India's own interest and well-being were taken into account. The primary consideration was to serve the economic, administrative and military interests of the British people. The railway travel of Indians between the important city centres grew only as a by-product.

3). The telegraph and postal systems:

- The introduction of the railways, telegraph and postal system linked different parts of India and promoted an exchange of ideas among the people, especially among her leaders. The first telegraph line from Calcutta to Agra was opened in 1853. The Post and Telegraph Department was also established in the same year. A halfanna postage stamp would carry a letter from one part of the country to another.
- The improvement in communications eventually helped to foster a sense of unity among Indians. The concept of the country as a whole now took precedence over regional and provincial isolationism. Books, journals and newspapers circulated widely and were now easily available to educated Indians all over the country.

4). Decline of Industries and Changing Conditions of Artisans in India during British Rule:

- The Indian handicrafts that had made the country famous, collapsed under the colonial rule. This was mainly due to the competition posed by the machine made goods that were imported from Britain. The ability of mass production of goods helped Britain to flood the Indian markets with cheap products especially cotton textiles.The railways facilitated the reach of these goods to remotest parts in India and the procurement of raw materials from these parts. The traditional handicrafts industry faced a tough competition from these goods produced in bulk.
- The policy of free trade followed by the East India Company helped them to dictate terms of trade. They compelled the Indian craftsmen to sell their goods below market price and they hired their services at below the prevailing wages.This forced many a craftsman to abandon their ancestral trade. The British exported raw materials from India like cotton. As a result the Indian weaver had to buy these materials at higher prices.

- This in turn raised the cost of Indian handicrafts as compared to the machine made goods. Indian goods were also subjected to high tariffs in the English market whereas the British goods gained duty free access into the Indian markets.

5). De-industrialization:

- As a result of these policies Indian handicrafts faced a severe challenge from the foreign goods. India now became the exporter of raw materials to British industries and an importer of ready-made goods from Britain. This phenomenon of the ruination of Indian handicrafts industries is most well known as Deindustrialization.

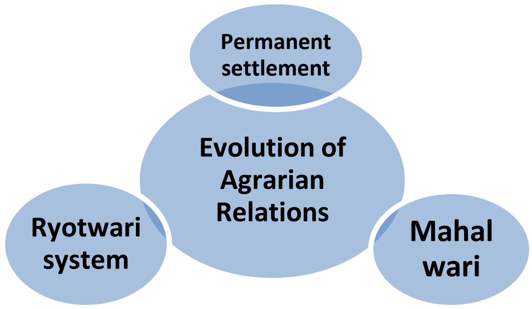
  This destroyed the self-sufficient village economy as the destruction of the traditional industries led to overcrowding in the agrarian sector. De-industrialization had far reaching effects in different sectors of the economy.

6). Drain of Wealth:

- The greatest impact of British policies was the drain of wealth from India. The Indian economy, no doubt, was primarily a rural economy, but Indian artisans produced goods in bulk to meet the demands of Indian and European buyers. Several towns had flourished as centres of trade. There had been a great demand for muslin from Bengal and silk from Bengal and Benaras.
- British merchants bought these Indian products in large quantities. But, at the beginning of the 18th century, Britain and other European countries passed laws prohibiting the entry of cotton and silk textiles from India although there was a demand for it. After the advent of the Industrial Revolution, India was forced to produce cotton, indigo and other products which British industries required.
- Indian markets were flooded with cheap, machine-made textiles manufactured in England. Indian hand-made textiles could not compete with the cheap machine-made textiles. India was transformed into a supplier of raw materials and a market for British manufactured goods.
- While British goods were exempted from duties while entering Indian markets, Indian goods entering England were burdened with heavy customs duties. Thus, the self-sufficient economy of India collapsed under the impact of British colonial policies. With the decline of the cotton industry, the towns that had flourished as centres of trade or industry also declined.

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 zamidari system:

Introduction to Zamidari:

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 of Zamidari system :

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 ani 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.

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

Ryotwari system:

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

2). Under the Ryotwari system of land revenue settlement, every registered landowner were calle proprietor. These proprietors were responsible for the direct payment of the land revenue to th state. The Proprietor had the right to sub let his land holdings, or to transfer, mortgage or to sell it. proprietor holds the land till the government wanted him to be the Proprietor. In case if th 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 c Madras, ry-otwari was instituted by the British colonial administration in the Madras Presidenc between 1818 and 1823, in the Bombay Presidency between 1818 and 1828, and in Assam and Bera in the mid-19th century.

4). In the regions with ryotwari, landholdings gradually became concentrated in the hands c landlords who often came from the elite of the communes, especially those who owned small an medium-sized estates, moneylenders, merchants, and other prosperous urban strata of th population. By the late 1940's, these groups owned about 60 percent of the land in these areas. By th 1950's, when the government of independent India began implementing land reforms, about 5 percent of the privately owned land was taxed according to the ryotwari system.

Topic 4: Rural indebtness & cooperative credit

What is Rural indebtness:

1).Rural indebtedness arises when the income of the farmer is not sufficient to repay the debt incurred or when he spends his income for unproductive purposes and does not save for the purpose of paying off his debt. When the borrower fails to repay the loan in time and the loan goes on accumulating, he becomes indebted.

2). Rural indebtedness is an indicator of the weak financial infrastructure of our country, which includes inability of our economic system to reach to the needy farmers, landless people in the villages and the agricultural wage laborers.

How Rural Indebtedness Arises?

1). The farmers borrow loan for for either agricultural operations or some other uses like supporting the family in the lean season or to buy equipments.
2). Due to lower income or wasteful expenditures when the farmers are unable to pay the loans they are unable to pay off their debts and thus accumulate the debt as well as pending interest on the amount.
3). The weaker ' financial inclusion' in India has given the local money lenders an opportunity to exploit such farmers from generations to generations.

Causes of Rural Indebtedness:

1. Poverty of the farmers:
The basic cause of the rural indebtedness in India is the extreme poverty of the farmers. The farmers being poor have to borrow for various purposes. Sometimes, the crops fail because of the failure of monsoons, or because of floods etc. They have to purchase seeds, implements, cattle etc. and since they have no past savings to draw upon, they are forced to borrow. Just as poverty forces him to borrow, it is his poverty again which forces him to have so little for paying off his debt.

2. Passion for land:
The farmers in the Indian context have a tremendous passion for land. They are keen to make improvements on land. They do it mostly through borrowing.

3. Ancestral debt:
The most important cause of the existing rural indebtedness is the ancestral debt. Many agriculturists start their career with a heavy burden of ancestral debt and drag the loan for the whole of their lives, taking it to be a religious and social obligation.

This increases the debt burdens on the inheritors, every time the debt is thus passed on. The Royal Commission on Agriculture has aptly described this situation, in its observation that the farmer "is born in debt, lives in debt and dies in debt."

4. Ease of taking loan:
Institutional agencies have fixed hours and stipulate that some formalities should be observed before the loans are sanctioned and then paid. On the other hand, a money lender has been easily approachable even at odd hours. This encourages borrowing.

5. Litigation:
Litigation, civil or criminal, is another cause of rural indebtedness. Agriculturists of standing are generally involved in various kinds of disputes such as intra-family disputes, inter-family disputes, and disputes over boundary lines, theft of crops, and division of ancestral lands etc. which often force them to go to courts of law. Such prolonged litigations involve heavy expenditure and to meet these expenses, farmers take loans which further aggravates the burden of rural indebtedness.

6. Small sized holdings:
Approximately 72.6 per cent of the operational holdings in India are less than 5 acres in size. When the holdings are small, modernisation of agriculture becomes impossible. The cultivation ceases to be economical even in the best of years and the yield from land becomes insufficient for the maintenance of the farmer and his family. On account of this reason the farmer incurs debt.

7. Illiteracy and ignorance:
The illiteracy and ignorance of the peasants stand in the way of improving the economic conditions. They are not conscious about the utility of small family norms. In view of the large size of the family, they are compelled to borrow money for fulfilling the basic necessities of life.

8. Extravagant expenditure:
Being bound to customs and tradition, the ruralites consider the expenses on the occasion for marriage, birth, death, and caste dinners on auspicious occasions and on some religious observance as unavoidable. Being poor, they have no reserve to fall back upon. This makes them to borrow.

They borrow at least for two reasons. In the first place, if they do not spend on these occasions, their image in the public eyes will be tarnished. Secondly, they have ambition to excel others in pomp and grandeur.

9. Malpractices of the money-lenders:
The private money-lenders are known to have adopted various malpractices.
(a) They have been charging exorbitant rates of interest varying between 40 to 60 per cent per annum.
(b) They have also been found keeping false accounts.
(c) They are more interested in forcing the borrowers to part with their land by encouraging the farmers to borrow from them and get their lands mortgaged to them.
(d) They have been purchasing the crops of the farmers at very low price when the latter approach them for selling their crops in order to repay their debts.
(e) When the farmers' debt has accumulated to a sufficient amount, they take away the land of the borrowers. Like a fly in the cobweb, which can rarely escape, similarly, the farmer once caught by the money-lender can rarely come out of his clutches.

10. High rates of interest:
The high rates of interest also compel the cultivators to borrow. The rates vary from state to state but due to the poor economic condition of the peasants, the interest accumulates every year. Quite often it is extremely difficult to clear up even interest charges alone. The Bombay Banking Committee rightly observes, "It is not that the agriculturist" repays too little, he often repays too much. It is the high rate

of interest and the malpractices followed by the money-lenders that tend to perpetuate his indebtedness."

11. Pulls of high standard of living:
Sometimes high standard of living constitutes the cause of indebtedness. Of late, the benefits of urbanization have reached the doorsteps of the ruralites. Poor peasants have fallen a prey to the consumeristic culture. They are attracted by the temptations of the amenities of city life. They are induced to buy them even if there is no great need for them.

12. Excessive burden of land revenue and rent:
During the British rule, the land revenue was fixed high. So the farmers were not able to pay in time. Hence, they were forced to borrow. Even in the Post-Independent India excessive land revenue with its rigid procedure of collection is squarely responsible for aggravating the problem of rural indebtedness.

The rent is tasking for the small and marginal farmers. The dues being fixed, they are bound to pay even when production suffers during conditions of flood and drought. Therefore, the farmers are forced to take loans to make these payments. Consequently the burden of indebtedness increases.

13. Addiction to drinking:
Drinking leads to rural indebtedness in two ways. In the first place, it gives rise to a number of quarrels and crimes resulting in litigation. Litigation as all of us know entails unnecessary expenditure. Secondly, drinking is itself an expensive habit and a good share of the peasant's income is spent for drinking.

14. Inflation:
Inflation unaccompanied by corresponding increase in the income of the ruralites compels them to borrow to meet their basic needs.

Consequences of Rural Indebtedness:
Rural indebtedness is dysfunctional for the rural society in more ways than one. Some of its evil consequences are as follows:

1.Growing number of the small, marginal farmers & landless labourers:

From the economic point of view, increasing rural indebtedness leads to growing number of the small and marginal farmers. They mortgage their landed property to the money-lenders and ultimately lose it to the latter. In this way, they join the ranks of the landless labourers. The small farmer gets a low price while selling his produce and pays high prices for buying inputs. Hence rural indebtedness is both the cause and effect of the growing poverty of the Indian farmers.

2. Social consequences in the form of naxalite movements:

Increasing rural indebtedness has also undesirable social consequences.
In many parts of the country, the small peasants who have lost their land to the money-lenders have revolted against the latter in a violent manner. The problem is particularly serious in some parts of Bihar, Orissa and Andhra Pradesh. In such states the high caste money-lenders have exploited the innocent and illiterate advises and have deprived them of their meager land ownership.MQuite naturally this has been the direct cause of Naxalite movements in these areas.

3. Rising power of moneylenders:
Rural indebtedness has far-reaching political implications for the rural society. The money-lenders become unscrupulous politicians and exploit the heavily indebted farmers when elections to village Panchayats, co-operative societies, state assembly and Lok Sabha are held. Democracy becomes a mockery.

4. Deterioration of agriculture:
As a result of indebtedness, the condition of agriculture also deteriorates. Two reasons may be attributed to this state of affairs. In the first place, the heavily indebted farmers because of paucity of funds are not in a position to modernize agriculture. This would cripple their capacity to increase their income level. Secondly, most of the farmers have to work on the moneylender's land as servants. Obviously they lack interest in work.

5. Low standard of health:
The farmers burdened with a heavy debt grow weaker because they are beset with the problem of repaying it. They work hard to repay the loan which sometimes tell upon their health. They also cannot afford to have medical facilities for themselves and for their children. They cannot have any nourishing diet. All these lead to the lowering of their health standards.

Measures for eradicating Indebtedness:

The Government has undertaken several measures since long to put an end to rural indebtedness. They are as follows:

1. Removing the need for borrowing:
(i) Steps have been taken to reduce the effective burden of land revenue and to make its payment convenient through greater elasticity in its administration and collection.
(ii) Adequate irrigation facilities have been provided to the farmers.
(iii) Inputs have been made available at cheap rates.
(iv) Agro-based industries have been promoted in the rural areas.
(v) Improvement has been effected in the sphere of means of communication and transportation. Better marketing facilities have been made available to the peasants.

(b) Protecting the assets of the agriculturists from passing into the hands of moneylenders:
For this purpose various Acts have been passed in the past e.g. the Land Alienation Acts, the Encumbered the Estates Relief Act of 1876 etc.

(c) Regulation of the activities of moneylenders:
For this purpose various legislative measures have been enacted. They are as follows:

(i) **The Deccan Agriculture Act, 1879:**
Under this Act the courts were allowed to go behind the contract of debt and to modify it in favour of the borrower.

(ii**) The Various Loans Act, 1918:**
This Act tried to improve the legal position of the borrower.
(iii) **The Regulation of Accounts Act, 1930:**

It aimed at protecting the debtor from manipulated accounts by prescribing forms of accounts and insisting on the debtor being supplied with these regularly.

(d) The Punjab Relief of Indebtedness Act, 1934:
It drew a distinction between secured and unsecured loans for purposes of rate of interests.
(e) Various Acts like the Punjab Registration of Moneylenders Act, 1938 provided for the registration and licensing of money lenders.

(f) The Acts like the Punjab Restoration of Mortgaged Lands Act and the Punjab Debtor's Protection Act provided for restoration of mortgaged lands on payment of nominal compensation and exempted ancestral property from attachments as also standing crops.

2. Nationalization of Commercial Banks:
The commercial banks were nationalised in 1969. Since then special efforts have been made to increase the involvement of public sector banks in the development of agriculture and other associated activities in the rural areas. At present, the commercial banks are mandated to earmark 18% of their total annual lending to agricultural sector as part of priority sector lending.

They have also been associated with the rural finance through some other important schemes such as the Lead Bank Scheme, Village Adoption Scheme, Service Area Plan, Intensive Centre Scheme, Agricultural Finance Corporation etc.

3. Regional Rural Banks:
Regional Rural Banks have been established since 1975 as a new source of finance in the rural areas. The main objective of these banks is to provide credit and other facilities to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs. These banks are sponsored by the nationalised commercial banks. So far as the area of operation is concerned, such a bank covers one or more districts of a state.
At present, there are 196 Regional Rural Banks in the country and these have about 14500 branches.

4. Twenty-Point Economic Programme:
Under the 20- point-programme launched in July, 1975, the government had declared a moratorium on the recovery of debt by money-lenders from farmers, landless labourers and rural artisans. Liquidation of rural indebtedness and abolition of bonded labour were two dynamic aspects of the old 20-point economic programme.

5. Co-operative Credit Institutions:
Co-operative finance is the best and the cheapest source of rural credit. It is because loans are advanced for productive activities and also at very low rates of interest as compared to those charged by the money-lenders and various other institutions. The Primary Agricultural Co-operative Credit Societies generally advance short- term and medium-term loans to the farmers, the Primary Land Development Banks cater to the long-term financial requirements of the farmers.

6. Report of the Sivaram Committee:
In its report submitted in April, 1976 the Sivaram Committee outlined the following proposals pertaining to rural indebtedness.
(a) Consumption loans for marriages, births and deaths, religious expenses, medical expenses, education etc. should be provided by the government corporations and nationalised banks to small farmers, landless labourers and artisans.

(b) Banks and Co-operatives should provide similar loans to marginal farmers.
(c) Schemes should be devised to enable these classes of people to return these loans.

7. National Bank for Agriculture and Rural Development:
NABARD was set up by the Government of India on 12th July, 1982 with an authorised capital of Rs. 500 crore and a paid up capital of Rs. 100 crore. It plays the role of a catalyst of rural resurgence through injection of adequate finance for approved development projects. It is an apex institution entrusted with the responsibility of bringing about rural prosperity.

The number of schemes sanctioned as well as the financial assistance extended by the Bank for these schemes has been constantly increasing. NABARD has been paying special attention in extending credit facilities in less developed banked areas like U.R, Bihar, M.R, Rajasthan and Orissa.

Recently, the bank prepared a model scheme for the commercial banks to issue 'Kisan Credit Cards' to the farmers. The purpose of the KCC scheme is to facilitate short term credit to the farmers. The scheme has gained popularity and its implementation has been taken up by 27 commercial banks, 187 Regional Rural Banks and 334 Central Cooperative Banks.

Since its inception till the end of March 2004, more than 41 million KCCs have been issued and total loans sanctioned amounted to Rs. 97,710 crores. KCC holders are also provided personal accident insurance cover of Rs. 5,000 for death and Rs. 25,000 for disability.

Suggestions for removing Rural Indebtedness:

Several suggestions have been made for eradicating rural indebtedness. Of them, major ones are the following:
1. Measures should be devised for cancelling old debts.
2. Measures should be adopted for limiting fresh borrowing to the minimum necessary and to the productive type.
3. The government should make arrangements for giving loans to the farmers at low rates of interest.
4. In order to make loans available to the villagers, the formal procedure for the grant of loans in the co-operative societies and banks should be made as simple as possible.
5. The laws preventing money-lender to take possession of farmer's land should be strictly put to practice.
6. Efforts should be made to desist ruralites from undertaking unproductive and wasteful expenditure. Hence they ought to be educated about the harmful consequences of unproductive debts.
7. In order to reduce the dependence of the ruralites on local money-lenders, the network of institutional credit structure comprising cooperatives, commercial banks and regional rural banks should be rapidly expanded throughout the country to cater to the credit needs of the small farmers and artisans.
8. There should be a check on the practice of private money lending. The account register of the moneylenders should be checked to find out how far they have increased their landed property during the period under review. Besides, only the registered and licence holders should be allowed to advance loans.

Brief History of Cooperative Movement in India:

1). The Co-operative movement has a long history in India. Co-operative societies were set up in India towards the close of the nineteenth century drawing inspiration from the success of experiments related to the co-operative movement in Britain and the cooperative credit movement in Germany.Since inception, the UCBs have been playing an important role in the socio-economic development of the country by making available institutional credit at affordable cost, particularly, in the urban and semi-urban areas.

2). The extension of the Banking Regulation Act, 1949 to co-operative societies, with effect from March 1, 1966, brought the co-operative banks within the ambit of the Reserve Bank's regulation and supervision.

3). Correspondingly, deposit insurance cover was also extended by Deposit Insurance and Credit Guarantee Corporation (DICGC) to the co-operative banks. While there has been a gradual growth in the UCB business over the period, with deposits growing from Rs. 1.67 billion to Rs. 2,120.31 billion and advances growing from Rs. 1.53 billion to Rs. 1,363.41 billion during the period 1966 to 2011, the growth of UCBs in the total banking business has not been commensurate with the overall growth of the banking sector.

4). Despite their large number, UCBs constitute a very small market share at 3.5 per cent (as of March 31, 2010) of the total banking sector

Rural Cooperative Banks:

Rural Cooperative Banks were the first formal institutions established to provide credit to rural India. Rural cooperatives have been a key instrument of Financial Inclusion reaching out to the last mile.

Framework of Rural Cooperative Banks:

In India Cooperative banks are registered under the respective State Co-operative Societies Act or Multi State Cooperative Societies Act, 2002 and governed by the provisions of the respective acts. Rural cooperatives structure in India is bifurcated into short-term and long-term structure.

Short Term Cooperative Structure:

The short-term cooperative structure is a three-tier structure

1). State Cooperative Banks at the apex (State) level,

2). District Central Cooperative Banks (DCCBs) at the intermediate (district) level

3). Primary Agricultural Credit Societies (PACS) at the ground (village) level.

The short-term structure caters primarily to the various short / medium-term production and marketing credit needs for agriculture.

Long Term Cooperative Structure:

The long-term cooperative structure has the

1) State Cooperative Agriculture and Rural Development Banks (SCARDBs) at the apex level
2) Primary Cooperative Agriculture and Rural Development Banks (PCARDBs) at the district or block level.
3) SCARDB and PCARDB were conceived with the objective of meeting long-term credit needs in agriculture.

Number of Rural Cooperative Banks:

By the end of 2008, there were around 31 State Cooperative Banks, 371 DCCBs and 94,950 PACS. There were 717 Long Term Rural Cooperative Credit Institutions (LTCCIs) comprising 20 SCARDBs and 697 PCARDBs.

Regulatory Framework:
The Rural Cooperative Structure in India is regulated by NABARD. The Board of Supervision, a Committee of the Board of Directors of NABARD, gives directions and guidance in respect of policies and matters relating to supervision and inspection of State Cooperative Banks and DCCBs.

A large number of StCBs as well as DCCBs are unlicensed as of now and and are allowed to function as banks till they are either granted license or their applications for licence are rejected.

Urban Cooperative Banks:
1). The Urban Cooperative Banks have to obtain a license from the Reserve Bank for doing banking business. The unlicensed primary (urban) co-operative banks can continue to carry on banking business till they are refused a license. Further UCBs also have to obtain prior authorization of the Reserve Bank to open a new place of business. UCB have to follow the Prudential norms relating to income recognition, asset classification, provisioning and capital adequacy ratio.

2). The client profile of Urban Cooperative Banks (UCBs) today predominantly consists of priority sector segments viz. small business establishments, SSI, retail traders, self-employed, etc who would not, normally, find it easy to access commercial banks. The priority sector loans of the UCBs are today at 46 per cent as against the prescribed target of 40 per cent. Nearly 90 per cent of the loan accounts are less than Rs. 0.5 million in value. To this extent, UCBs are already contributing to financial inclusion. However, there remains a huge hidden potential waiting to be tapped. Given the large number of urban co-operative banks, and with 271 districts not having any presence of UCBs, there exists a huge potential for UCBs to increase their spread and business and also participate in the national mission of financial inclusion.

Topic 6: Decline of cottage & small industries in India

Introduction & need of cottage industries:

1). Cottage industry means the manufacture of goods at home by manual labour with a small capital, on a small scale, by a small number of workers, often comprising members of a single family.

2). The glorious past of cottage industries is well-known. We had flourishing cottage industries in early times, many of them having wide markets abroad. But all these glories have now become things of the past. The decline of these industries began in the third decade of the 19th century. The main causes of decline were (1) the industrial revolution in England and competition with mill-made goods, (2) alien rule and restrictive measures on the import of Indian goods into England, (3) disappearance of the demand of the products of cottage industries by Kings and Nawabs as their courts came to an end, (4) No liking for indigenous products by the newly-rising educated class, and (5) deterioration in the quality of Indian products themselves.

3). Indian environment and conditions are more favourable to the growth of cottage industries than those of any other country. Their revival does not mean return to medievalism or total rejection of modern methods. Mechanical inventions, which involve the use of electricity, may be freely used to ensure better production with less labour. The problem of capital, raw materials and marketing may be solved by State aid and co-operative system.

4). Besides being labour-intensive, cottage industries can play an important part in Solving the problem of unemployment in India, 'which has, at present moment, become her major problem. They can also provide an alternative occupation to agricultural labour during off-seasons. In India, capital is scarce, but cheap labour is abundantly available. Unemployment, underemployment and seasonal unemployment are rampant on a mass scale. The employment capacity of small industries being at least eight times that of the large industries, they can substantially help in solving this problem

5). Small enterprises tend to create a situation in which a more equitable distribution of income is made possible. The process of decentralization accelerated by small-scale industries, in addition to exploiting local resources, helps to reduce regional imbalances and the imbalances between rural and urban growth.

6). Another important advantage of developing small units is that they not only do not require much foreign exchange earnings of the country. But above everything else, they can bring about awakening among the people. They can make them self-confident and self-reliant.

Problems of Small scale & cottage Industries

(1) Problem of Raw-material—Due to their limited resources, the owners of these industries cannot afford to purchase raw-material in bulk. That is why they get low quality materials at high rates.

(2) Problem of finance - Cheap and easy finance is not available to these industries. The financing system of government institutions and banks is such that these industries have to complete many formalities and there are so many complications which can be followed by these less educated entrepreneurs.

(3) Marketing problems—These industries mainly exist in villages and due to lack of transport and communication facilities they are handicapped in finding suitable markets for their products,

(4) Lack of Managerial Talent Cottage and small scale industries are mostly run by the small businessmen having no training of management and organization. How these industries, therefore, can stand before the large seals industries which are managed and organized by the specialists of that field?

(5) Competition with large-scale industries—The main problem before these industries is that they are unable to compete with large-scale industries. The economies of large-scale production are not available to them and therefore they fail to compete with large-scale industries.

Government Measures

Keeping in view the importance of cottage and small seals industries the government have taken many steps to overcome their problems. The main steps taken are:

(a) The Union Government has set up a number of agencies to help the village and small industries. These include the Small Scale Industries Board the Khadi and Village Industries Commission, the All India Handicrafts Board, the AH India-Handloom Board and Central Silk Board,

(b) Credit facilities are made available to these industries through a number of institutions. Small scale sector is included m the priority sector for the supply of institutional credit.

(c) Industrial estates and rural industrial projects have been set up and industrial co-operatives have been organized.

(d) To encourage the small scale sector, the Central Government has reserved 807 items for exclusive production in the sector.

(e) The District Industries Centres are being established at the district level to provide under one roof, all the services and support required by small and village entrepreneurs.

The Industrial Policy Resolution, 1980

The Industrial Policy Resolution, 1980 has this following provisions for the development of cottage and small-scale industries :

(a) Introducing a scheme for building up of buffer stocks of essential materials which are often difficult to obtain. Special needs of states which rely heavily on a few essential raw-materials will receive priority.

(b) To generate as many ancillaries and small and cottage suits as possible, the government will set up a few nucleus plants in each district. A nucleus plant would concentrate on assembling the products of the ancillary and small scale units falling within its orbit.

(c) Enhancing the limit of capital investment for small scale and ancillary industries.

Conclusion: In the over-populated countries like ours, the only way to fight the monster of unemployment is the development of cottage and small scale industries. They will bring about a more equitable distribution of wealth. In the words of Dr. V.K.R.V. Rao, ''Small scale and cottage industries have a special claim for consideration in that they are the local investments through which the decentralization of industrial production can be achieved." It can, therefore, be said that 'Small is Beautiful'.

Topic 6: recession & its impact

What is recession?

Recession can be defined as a period of general economic decline; typically defined as a decline in GDP for two or more consecutive quarters. A recession is typically accompanied by a drop in the stock market, an increase in unemployment, and a decline in the housing market. A recession is generally considered less severe than a depression, and if a recession continues long enough it is often then classified as a depression. Recessions are generally believed to be caused by a widespread drop in spending. Governments usually respond to recessions by adopting expansionary macroeconomic policies, such as increasing money supply, increasing government spending and decreasing taxation.

WHAT CAUSES RECESSION?

An economy which grows over a period of time tends to slow down as a part of the normal economic cycle. An economy typically expands for 6-10 years and tends to go into a recession for about six months to 2 years. A recession normally takes place when consumers lose confidence in the growth of the economy and spend less. This leads to a decreased demand for goods and services, which in turn leads to a decrease in production, lay-offs and a sharp rise in unemployment. Investors spend less as they fear stock values will fall and thus stock markets fall on negative sentiment. Factors That Cause Recessions are:

1). High Interest Rate: High interest rates are a cause of recession because it limits liquidity, or the amount of money available to invest.

2). Increased Inflation: Inflation refers to a general rise in the prices of goods and services over a period. As inflation increases, the percentage of goods and services that can be purchased with the same amount of money decreases.

Reduced Consumer Confidence: If consumers believe the economy is bad, they are less likely to spend money. Consumer confidence is psychological but can have a real impact on any economy.

3). Reduced Real Wages: Real wages refers to wages that have been adjusted for inflation. Falling real wages means that a worker's paycheck is not keeping up with inflation. The worker might be making the same amount of money but his purchasing power has been reduced.

HISTORY OF RECESSIONS:

1). Global Recessions

The IMF estimates that global recessions seem to occur over a cycle lasting between 8 and 10 years. During what the IMF terms the past three global recessions of the last three decades, global per capita output growth was zero or negative. Economists at the International Monetary Fund (IMF) state that a global recession would take a slowdown in global growth to three percent or less. By this measure, four periods since 1985 qualify: 1990-1993, 1998, 2001-2002 and 2008-2009.

2). The Indian economy exhibited significant resilience in 2008-09 in the face of an intense global financial crisis and the subsequent severe global recession. In a globalised world, however, the natural process of transmission of contagion operating through the trade, capital flows and confidence channels affected the domestic economic and financial conditions. Real GDP growth, which had averaged at 8.8 per cent during 2003-08, decelerated to 6.7 per cent in 2008-09.

US RECESSION-2008:

The financial crisis of 2008–present is a crisis triggered by an insolvent United States banking system. It has resulted in the collapse of large financial institutions, the bailout of banks by national governments and downturns in stock markets around the world. In many areas, the housing market has also suffered, resulting in numerous evictions, foreclosures and prolonged vacancies. It is considered by many economists to be the worst financial crisis since the Great Depression of the 1930s. It contributed to the failure of key businesses, declines in consumer Wealth estimated in the trillions of U.S. dollars, substantial financial commitments incurred by governments, and a significant decline in economic activity. The collapse of a global housing bubble, which peaked in the U.S. in 2006, caused the values of securities tied to real estate pricing to plummet thereafter, damaging financial institutions globally. Questions regarding bank solvency, declines in credit availability, and damaged investor confidence had an impact on global stock markets, where securities suffered large losses during late 2008 and early 2009. Economies worldwide slowed during this period as credit tightened and international trade declined.

IMPACT OF RECESSION ON INDIA

Since US is one of the major super powers, a recession–mild or deeper will have eventual global Consequences? The crisis rapidly developed and spread into a global economic shock, resulting in a number of European bank failures, declines in various stock indices, and large reductions in the market value of equities and commodities A slowdown in the US economy was definitely a bad news for India because Indian companies have major outsourcing deals from the US. India's exports to the US have also grown substantially over the years. But inspite of all this India has successfully weathered the great financial crisis of September 2008. Indian gross domestic product (GDP) has grown around 6% in every quarter of the most difficult 12 months in recent history.

1). Unemployment: Not everyone is affected equally by a recession. A fall in GDP will cause a rise in unemployment. This is becauseSome firms will go bankrupt meaning all workers lose their jobs.In an effort to reduce costs, firms will cut back on hiring new workers. Therefore, unemployment often affects young people the most.

2). Lower wages: Firms will also try to reduce costs by keeping wages low. Some workers (especially temporary workers without contracts may see wage cuts) This has been a key feature of the 2008-12 recession, also aggravated by rising costs of living. Another cause of lower wages is under-employment. Some workers may keep their job, but see their hours cut. Rather than working full time, they become part-time workers (e.g. 20 hours a week). This means that the rise in unemployment may be muted, but many workers see substantial falls in effective income.

3). Taxation: Governments will see a fall in tax revenue as a result of a recession.Firms make less profit, therefore government receive lower corporation tax. Workers receive lower income, therefore government receive lower income tax. Lower house prices, and fewer housing transaction – lower stamp duty

4). Government Spending: Rising government spending on welfare payments, such as unemployment benefits and income support.

5). Budget Deficit: Because of falling tax revenues and rising welfare payments (automatic fiscal stabilisers) a recession tends to cause an increase in the budget deficit, and total government debt.