**B.COMGE 301-18**

**Indian Economy**

**Course Objective:**

The purpose of this course is to familiarize the students with various aspects of Indian economy. It also aims to develop a perspective on the different problems and approaches to economic planning and development in India.

**UNIT-I**

Nature and Structure of Indian Economy, Basic Features and Problems of Indian Economy. Concept of Economic Development, Difference between Economic Growth and Economic Development. Demographic Features of Indian Population. Hurdles created by Population Explosion in India. Effects of Population Explosion. Problems of Poverty, Unemployment, Inflation, income inequality, Black money in India.

**UNIT-II**

Sectoral composition of Indian Economy: - Issues in Agriculture sector in India ,land reforms Green Revolution and agriculture policies of India , Industrial development , MSMEs and cottage industries, Industrial Policy, Public sector in India.

**UNIT-III**

Nature and Features of Economic Planning, Objectives of Indian Planning. Planning commission v/s NITI Aayog, Monetary Policy and Fiscal Policy in India, Centre State Finance Relations, and Finance commission in India. Liberalization, Privatisation and Globalisation. Impact of Globalization on Indian Economy.

**UNIT-IV**

India’s Foreign Trade- Value, Composition and Direction, Balance of Trade Vs. Balance of Payments. Disequilibrium in Balance of Payments. Export Promotion-Need for Export Promotion in India, Role of Government in Export Promotion. Obstacles in Export Promotion. Suggestions for Export Promotion. Import Substitution-Suggestions to Improve Import Substitution. WTO and India.

# INDEX

# UNIT-1

**Title: Indian Economy**

**<u>NATURE (FEATURES) OF AN INDIAN ECONOMY:</u>**

The term Indian economy is the outcome of two words, Indian plus economy. "Indian" refers to those concerning India. "Economy" refers to all those activities and arrangements which the citizens of a county, either individually or collectively, undertake to their wants of food, clothing. Shelter etc. Indian economy is not just a study of facts and figures relating to economic of India rather it undertakes causes and effects of the problems pertaining to economic life. Nature of Indian economy clear from the study of following features and aspects of Indian economy:

(1) Indian Economy is an Underdeveloped Economy.

(2) Indian Economy is a Mixed Economy.

(3) Indian Economy is a Planned Developing Economy.

(4) Dualistic Nature of Indian Economy.

5) Sect oral Distribution of Indian Economy.

**<u>1Indian Economy is an Underdeveloped Economy (PROBLEMS OF INDIAN ECONOMY)</u>**

Per capita income of some countries of the world like America, England, Japan, etc., is much higher than that of some other countries like India, Pakistan, Sri Lanka, Bangladesh, etc. Economies of the former countries are called developed economies. On the other hand, there are countries like India, Bangladesh, Pakistan, etc. whose per capita income is much less than that of the developed ones. Economies of such countries are called underdeveloped economies. A less developed country is simply one with low per capita income, relative to per such nation as Canada, the United States, Great Britain and

Western European. Optimistically, a less developed country is one regarded as being capable of substantial improvement in its income level

**Features of Indian economy as an underdeveloped economy**

**(1) Stagnant Per Capita Income:** During fifty years prior to Independence (1947) growth rate of per capita income per annum was less than 1 per cent. After independence, no doubt, as a result of planning, Indian economy got a stimulus, yet the rate of increase in per capita income remained very low. Rather, in the Third Plan it declined to 0.2. During the period between 1950-51 to 2014-15, annual rate of increase in per capita income was about 3 percent. This stagnant per capita income is an index of underdeveloped nature economy.

**(2) Low Level of Per Capita Income**: In the words of Kurihara, "Low per capita real income is the main feature of an underdeveloped economy.” Per capita income of India is low as compared to many countries of the world.

**(3) Low Standard of Living**: On account of low per capita income, level Of consumption of such necessities of life as food clothing, shelter, etc. is very low In India intake of an individual was 2,496 calories per day as against it in developed countries, average intake of an individual was 3,400 calories. Thus, in India most of the people do not get balanced diet. On account of low standard of living of the people, their efficiency remains low. Per capita low productivity is mainly due to low efficiency. Consequently. Per capita income is low. It is because of low income that poor people continue to be poor

**(4) Unequal Distribution of Income and Wealth**: In India, on the one hand, per capita income is low and on the other hand, there is large inequality in the distribution of wealth. According to Human Development Report 2009, in India the poorest 10 percent population gets only 3.6 percent of national Income. As against it, the richest 10 per cent population enjoys 31.1 per cent of national income. It may be noted that in many countries of the world like Japan, America, England, etc. due to inequalities in the distribution of wealth and income, rich people saved large part of their income and invested the same to increase capital formation. As a result, growth rate of the economy got accelerated there. However, in India, rich people spend their wealth on conspicuous consumption, like jewellery, gems, gold and silver. They spend lavishly on social and religious functions. Consequently, very little amount of wealth is left for capital formation. During the period of planning in India, instead of reduction in the disparities in the distribution of wealth and income, the same have actually increased.

**(5)Excessive Dependence on Agriculture**: In India, about 49 per cent of population depends on agriculture. In 2015-16, agriculture contributed 15.3 percent to national income. It means that 49 per cent of population that depends on agriculture generates just 15.3 per cent of national income. As against it, the other 51 per cent of population that is engaged in non-agricultural activities produces 84.7 per cent of the national income. It clearly proves that productivity of agricultural laborer is far less than the productivity Of non-agricultural labourer.Too much dependence on agriculture is another sign of underdeveloped nature of Indian economy.

(**6) Lack of Proper Industrialization**: Rate of industrial development has been very slow in India. Many important industries are lacking in India. Although in the post-independence era many consumer goods industries like textile, sugar, pharmaceuticals, etc. have developed sufficiently, yet basic and producer goods industries like, machine tools industry, chemical industry, fertilizer industry, etc. have not developed satisfactorily. On account of backwardness, the country has to depend on foreign countries to meet many of its requirements. Low rate of industrial growth results in low productivity and low per capita income. Pressure of population on agriculture increases and consequently improvement of agriculture is hindered.

**(7) Lack of Proper Banking Facilities:** One of the causes of underdevelopment of India is that banking and credit facilities, especially in rural area have not properly developed. Most of the population in India depends on agriculture and small industries. Poor and small farmers do not get loans and credit facilities at cheap rates of interest. they depend on indigenous bankers for their credit requirements  Thus, due to inadequate banking facilities, large number of entrepreneurs of the country are unable to improve their economic lot.

**(8) Less Development of Means of Transport:** In India, means of transport like railways, roads, air and waterways are not adequate in view of the vast geographical area. These means being far less than the requirements have an adverse effect on the mobility of goods and labour. It is difficult and expensive for the poor farmers to carry their farm produce to the mandis. They are compelled to sell the same in the village at uneconomic prices. Industries also face difficulty in getting raw material, coal, etc. due to shortage of means of transport. As a result. Industrial production falls and cost of production raises, In India, there are 5.2 km of railway lines per one lakh population, as against 169 km of railway lines per one lakh population in Canada. Besides. In India. Yet all villages are not connected with all-weather roads. The quality of roads in India is Very poor in comparison to roads of developed nation.

**(9) Pressure of Population:** Of the total world population, 18 per cent lives in India whereas it has just 2.4 per cent of world area. Thus. In India, per capita availability of land is very less. Rate of population is also very high, Because of high growth rate of population. Problems like food shortage, unemployment. Etc. raises their ugly head. This pressure of population is a great obstacle in the way of economic development.

**(10) Unemployment and Under-employment**: India suffers from large-scale unemployment and under-employment. In December 2013, the number of unemployed registered in 969 employment exchanges of the country, were 4.68 crore. On account of unemployment there is wastage of labour power, less production, low per capita income and low rate of investment.

**(11) Lack of Capital**: Capital formation plays a very important role in the economic development of a country. In the words of Kuznets, "Low rate of capital formation is the cause of low growth rate of national output. In 1950-51, about 9 per cent of gross national income was saved. Level of investment was also the same. There were many causes of low saving and low investment in India like: large spending by the rich class on luxury goods, less banking facilities in India and lack of investment opportunities, etc. In 2014-15, the level of investment increased to 34.2 percent- In India, capital output ratio is also high. Although India is rich in natural resources—water, minerals and forests, etc. yet these have not been fully harnessed. Barely one-fifth of country's water resources have been utilized. Consequently, on the one hand, agricultural and industrial production of the counfry is adversely affected and on the other hand, floods play havoc in the country. India has not been able to utilize fully its mineral wealth like iron, coal, petrol, mica, etc. Due to shortage of irrigation, agricultural land cannot be utilized properly. Forest wealth has also not been fully exploited. Lack of optimal exploitation of natural resources is one of the main factors of underdevelopment of India.

**(12) Shortage of Able and Efficient Entrepreneurs:** According to eminent economist Schumpeter, "Able and efficient entrepreneurs are the essential pre-requisite of economic development". But in India there is a great shortage of such entrepreneurs. Entrepreneurs here want to get rich quickly by indulging in speculative activities. They are least interested in undertaking risks and setting up of new industries. That is why the development of industries has not taken place in a proper manner in India.

**(13) Outdated Social Institutions**: Main social institutions of India, like caste system, joint family system, law of succession, customs, religious rites, etc. are proving a hindrance to economic development. Under their influence, people do not like to abandon out-moded methods of working, they oppose scientific methods. The result is that modern techniques are not adopted and the resources of the country are wasted.

**(14) Low Grade Human Capital:** Modern economists consider laborers as a form of capital. They call it human capital. Low grade human capital is both cause and effect of underdeveloped nature of Indian economy. When the standard of living of the laborers' of a country is low, their health is poor. They are illiterate then their efficiency too becomes low. Because of low efficiency, cost of production becomes high and quality of the product becomes poor

**(15) Poor Technology:** It is low level of technology that prevails in most industries and in a very large sector of agriculture in India. In many industries like cotton textile, sugar, etc. old and inferior machines are still in use. The product of these machines is not only inferior but the cost of production is also high. Consequently, our industrial products fail to compete in international market and adversely affect our exports. In the agricultural sector, use of modern equipments, high yielding variety of seeds, chemical fertilizers, etc. is very little. Low level of technology accounts for low productivity and less than optimum use of resources.

**(16) Dualistic Economic Structure:** Indian economy is a dualistic economy. In it, two types of economic structures prevail (I) Highly Developed Sector: It includes export-oriented units, multinational corporations working in India, business units owned by big industrial houses, etc. This sector has very high income. Their style of working is like that of developed nations. (ii) Subsistence Sector: This sector includes agriculture, small business units, village industries, etc. This sector is quite undeveloped. The income of this sector is very less. Most of the people engaged in this sector are just able to earn their livelihood. Simultaneous existence of both these sectors in India makes it dualistic economy.

## 2. Features of Indian Economy as a Mixed Economy

Main features of mixed economy of India are as follows

**(1) Public Sector**: According to Industrial Policy 1991, number of industries reserved for the public sector is reduced to 2. These include (i) Atomic Energy, (ii) Railways. All other industries are now open for private sector. Now, even among Railways some key infrastructure components viz. high speed train projects, dedicated freight lines, mass rapid transport system, signaling system, railway electrification, etc. have been opened for the private sector.

(**2) Licensed Sector:** Industrial licensing provisions have been made very liberal. Now only 5 industries are covered under licensing, i.e., one will have to obtain license before setting such industrial unit. These five industries are—alcoholic products, tobacco products, defense equipments, industrial explosives and hazardous chemicals.

**(3) Private sector:** Except the two industries reserved for public sector, all other industries are opened for private sector.

## 3. Features of Indian Economy as a Planned Developing Economy

**(1) Economic development or increase in national income**: increase in national income is an index of economic development. During the period prior to economic planning national income in India was growing at the rate of just 0.5 percent. Indian economy was therefore a stagnant economy. During the period of five year plans national income has increased at an average rate of 5.1 percent per annum.

**(2) Increase in Per Capita Income**: Before independence, increase in per capita income was almost negligible; but during the period of planning, it increased at the rate of around 3 percent per annum.Now growth rate of per capita income was 6.4 per cent.

**(3) Increase in Rate of Capital Formation**: Capital formation plays a significant role in the economic development of a country. During the period of five Year Plans, rate of formation has increased appreciably. Rate of capital formation depends on the rate of saving and investment. During the period of five Year Plans, rate of saving and investment has increased very much. In the year 1950-51, rate of capital formation was 8.7 per cent of GDP .now this rate increased to 34.2 per cent of GDP

**(4) Institutional Reforms in Agriculture and Green Revolution:** Contribution of plans in the development of agriculture has been of two kinds: (a) land reforms and (b) technological development. Although land reforms could not be implemented fully, yet it must be acknowledged that even limited land reforms have created a congenial atmosphere for scientific cultivation. In 1966, great stress was laid on technological development of agriculture. It culminated in Green Revolution. During the period of Plans, production of food grains has increased four-fold. In 1951-52, production of food grains was 550 lakh tones. In 2017-18, it increased to 2,527 lakh tones. In 1950-51, the area under irrigation was 17 per cent; it increased to 46 per cent .During the period of planning, growth rate of agricultural production was 2.7 per cent per annum on the average. During plans, agricultural production has increased very much. Per hectare production has increased on account of application of scientific methods of cultivation, improved seeds and chemical fertilizers.

**(5) Development of Industries:** Plans have succeeded a lot in industrial sector. Basic and capital goods industries like iron and steel, machinery, chemical fertilizers etc. have been developed considerably. Public sector has expanded. Country has become almost self-sufficient in the matter of consumer goods industries. There has been diversification and modernization of industries. Industrial production capacity has increased tremendously. In short, industrial production has witnessed considerable rise during the period of planning. In eleventh plan, industrial production growth rate was 7.2 per cent. Due to global slowdown and euro zone public debt crisis in European nations, industrial production growth rate India also came down to 2.3 per cent in 2012-13. In year 2014-15 and 2015-16, industrial production increased by 5.9 per cent and 7.3 per cent respectively.

**(6) Development of Infrastructure**: Economic infrastructure mainly includes means of transport, communication, irrigation and power generation capacity. During the planning period, infrastructure has developed considerably. Power generation capacity has increased significantly. There has been a lot of improvement in roads, railways, seaports, airport, airways, telecommunication, banking, insurance, etc. All this has helped in achieving faster economic growth rate.

**(7)Social Services**: During the period of planning, social services like education, health, medical, family planning, etc. have also developed appreciably. (i) Death rate in 2013 came down to 7 per thousand as against 40.8 per thousand in 1951. (ii) Average expectancy of life has gone up to 67.5 years against 32 years in 1960. (iii) Many dangerous diseases like polio have nearly been eradicated. (iv) Research: A chain of national laboratories and research centers has been established. (v) Education: Number of school-going students has increased manifold. Number of colleges, universities, professional colleges, management institutes has increased significantly. (vi)Health: There has been good increase in number of hospitals, beds, doctors, nurses, medical facilities, etc.

**(8) Increase in Employment:** Several measures have been taken to increase employment opportunities during the period of economic planning. Government has launched various employment generation schemes in urban and rural areas. Small and cottage industries and other labour intensive industries have been given emphasis so as to promote employment. In the Twelfth Five Year Plan, government has fixed the target of creating 50 million additional employment avenues.

**(9)Modernization:** Technological up gradation took place in almost all the areas in the period of economic planning. During five Year Plans, efforts have been made for promoting research and development activities in all sectors viz., agriculture, industries, service sector, and infrastructure. Etc. This has led to reduction in capital-output ratio in the economy, i.e. now more production has become possible with the same amount or lesser amount of capital. Modernization of Indian industries has helped our economy to export its industrial products to many nations of the world. Modernization in agriculture has led to increase in agricultural

**(10) Export Promotion, Diversification and Import Substitution**: During planning period. Exports have not only significantly increased, but there has also been diversification of export items. The composition of exports has also got diversified. Now in addition to primary products, manufactured goods, engineering goods, jewellery, information technology services. etc. are also exported. Import substitution is also a great achievement of planning. Large-scale import substitutes of iron & steel, machinery and fertilizers have reduced the import of these items. It has reduced our dependence on foreign countries. It has also helped to improve balance of payment position.

**(11)Development of Science and Technology:** During planning period. Significant growth of science and technology has been achieved. In the field of information and technology significant progress has been made. Now India supplies manpower to foreign countries for their information and technology sector. Today. India controls more than half of the global market in IT-services.

**(12) Structural and Institutional Changes:** Many positive structural and institutional changes have been introduced during planning period. It includes expansion of public sector, introduction of price support system, public distribution system, development of financial institutions, etc. adoption of liberalization, globalization and privatization is also a positive institutional and structural change.

**(13) Less Cyclical Fluctuations**: There are less economic fluctuations in the economy as a result of economic planning. Economy is less confronted with situations like boom, depression, unemployment, over-production, etc. Economic planning is instrumental in bringing about and maintaining economic stability. All economic activities are properly coordinated.

**(14) Production According to Needs**: Economic planning leads to need-oriented production of goods and services. In economic planning, the planning authority formulates the plan. It coordinates the natural, human and physical resources in such a manner that resources are properly utilized and result in production according to requirements of the economy.

**(15) Balanced Economic Growth**: Economic growth is sought to be achieved in a balanced manner by the planning authority. It aims at securing balanced regional and sectoral growth. There are several advantages of balanced growth, such as, agricultural development, proper industrialization, reduction in poverty, increase in demand of goods or services of one sector by the persons of other sectors, etc.

**(16) Right Use and Conservation of Natural Resources**: Government ensures proper use and conservation of natural resources under economic planning. While making use of these scarce resources, it is ascertained that there is least possible wastage. These are used for the benefit of the entire society and not a particular class. Use of minerals such as coal, oil, etc. is made keeping in view not only the present but also the future generation

## 4. Features of Indian Economy as a Dualistic economy

Dualistic nature of economy refers to presence of two different types of economic conditions, technological levels and social sections. Wide inequalities prevail in these two sections of society. Main types of dualism prevailing in India are as follows:

**(1)Economic Dualism**: In this type of dualism, economy is divided in two sectors. One sector of the economy is a subsistence sector where people work just to earn their livelihood it includes agriculture, small business units and village industries. People working in this sector are generally poor and their standard is low. The other sector of the economy is highly developed. It includes large business units and modern enterprises. People working in this sector are rich and enjoy good standard of living. Employees working in this sector get goods salaries.

**(2) Technological Dualism:** In one sector of the economy, outdated and traditional technology is used for production. People working in this sector are backward. They do not want to adopt modern techniques. The other sector o the economy uses Innovative and mode methods of production. The entrepreneurs of this sector even import latest technology from other countries.

**(3) Sociological Dualism:** one section of society is highly traditional, having much faith in customs, traditions, superstitions, etc. These persons are highly immobile, and are not ambitious. The other section of society is very forward, and People of this section are less traditions, customs, rituals and superstitions.

**5. Features of Indian Economy as a Sectoral distribution economy**

Indian Economy is divided in three main sectors:

**(1) Primary Sector:** It includes agriculture, forestry, dairy, quarrying, etc.

**(2) Secondary Sector:** It includes manufacturing sector, construction, power generation, etc.

**(3) Tertiary Sector Service Sector:** It includes services like banking, insurance, telecommunication, Information technology, warehousing, trading, etc. In developed countries contribution of tertiary sector in their national income is generally around 65 per cent that of secondary sector is around 30 per cent and of primary sector is around 5 per cent. In India, earlier the contribution of primary sector was quite dominating. In the year 1950-51, it was 61 per cent of total national income. This indicates underdevelopment of our economy. Now sectored distribution of national income is changing in favor of tertiary sector. In the year 2017-18, share of tertiary sector in national income was_53.5 per cent. That of secondary sector 31.2 per cent, while share of primary sector has come down to 15.3 per cent. It is a favorable change in sectored distribution of national income. Thus, now the growth of our economy is led by tertiary sector.

## DEMOGRAPHIC FEATURE OF INDIAN POPULATION

India comes next only to China as regards the size of its population but is seventh in the world as regards the size of its area. Thus, on 2.4 per cent of world's area and with 2.5 per cent of world's income, India is maintaining 18 per cent of world's population; It clearly indicates that there is excessive burden of population in India.

### 1. Size and Growth of India's Population

India's population increased rapidly in the post-independence period. In year 1951, size of population was 36.11 crore. Between 1951-61, it increased by more than 7.81 crore or by nearly 21.6 percent which exceed its growth rate of the previous 40 years. This excessive rise in population is called population Explosion. Since 1951, population has been increasing constantly. The size of population was 68.33 crore in the years 1981 and 102.901 crore in 2001.In the year 2011 size of population was 121.02 crore. Growth rate of population in India is extremely high. Every year there is an addition of lakh persons in our country's population. According to recent data now India population is 1.37 Billion

### 2. Classification of Growth of Population

Study of the growth of India's population can be divided into four periods of time:

**(a)Period of Stable Population (1891 to 1921)**: Between 1891 and 1921 rate of growth of population in India was slow. It was so because in these years. Calamities and epidemics, like famines, plague, malaria, etc. took a heavy toll of human lives.

**(b) Period of growth of population (1921 to 1951)**

Since 1921 population has been increasing at a rapid rate. The trend of growth of population in India since 1921 has been consistently on the rise.

**(c) Period of population Explosion: (1951 to 1981)**

In this period population increased at a very fast rate. The growth rate was also high.

**(d) Period of high growth but with signs of slowing down.**

In this period birth rate has started slowing down. Death rate was not slowing down due to advanced medical facilities

3. **Birth rate and death rate:**

Birth rate and death rate in India are high compared to most countries in the world .Birth rate refers to number of children born per thousand persons in a year. Death rate refers to number of people dying per thousand persons in a year. When it is said that birth rate in India is 21, it means every year 21 children are born per thousand persons on an average

**1901-1910 birth rate 49.2 (per thousand per year) death rate 42.6 (per thousand per year)**
**2019 birth rate 18.46 (per thousand per year) death rate 7.26 (per thousand per year)**

In the period 1901 to 1910 the population remained stable, because both birth rate and death rate were equal. After 1921, due to improvement in health and medical facilities, epidemics like plague, cholera malaria etc.were brought under control and consequently there was sharp decline in death rate. Proper distribution of food grains in the country also brought down the starvation deaths .some decline in birth rate is visible under the impact of family planning programme vigorously pursued after 1961

4. **Density of Population**

Density of population refers to average number of people living per square kilometer - Density of population in a country is measured by **dividing its total population by total area.**

**For example in 2019 India s population was 1369539072. density of population in India was 460 per sq. km.**

**<u>Factors influencing Density of Population</u>**

**(a)Climate:**

Climate significantly affects population density. If climate of a place is pleasant and good for health, then population density will be more there e.g. in states like Kerala. west Bengal, Bihar. Punjab, etc. population density is more. But if climate is excessively hot or cold than population density will be less there.

**(b) Fertility of soil**

Soil of a state is fertile then it will attract farmers for cultivation. Resulting in high population density, e.g. the states like West Bengal, UP, Punjab, Bihar. States on Eastern and Western Ghats have fertile soil, so population density is high here.

**(c) Irrigation**: If a state has good irrigation facilities then it attracts farmers for agriculture resulting in high population density e.g. in undivided Punjab. As result of Chenab Canal population density increased to 500 in the year 1941. Which were just 40 before Opening of this canal. The states which have poor irrigation facilities have less population density

**(d) Industrial Development**: The states which have developed-industries, attract people for employment opportunities. It results in high population density in industrially developed states. Cities like Mumbai, Kolkata. Kanpur, Ahmadabad, Ludhiana have high population density because of this reason.

**(e) Commercial Centers**: The places which have good commercial centers have high population density. Places like Delhi, Bangalore, Amritsar, and Mumbai are good commercial centre, hence have high population density.

**(f) Religious Places**: Religious places attract many tourists. To cater to the needs of these tourists, many people shift to these places, resulting in high density. Places like Haridwar, Amri, and Varanasi have high population density because of this reason.

**(g) Capital Cities**: In capital cities, population density is more, as many government offices are located in capital cities e.g. density of Delhi, Chandigarh, Luck now, Patna, etc. is high.

**(h)Stage of Economic Development:** Areas which are economically developed have high density e.g. density of metropolis is more. Urban areas have more employment avenues due to more economic development in comparison to villages. So urban areas are more densely populated than villages.

**5. Rural-Urban Population**

Ratio of urban population to the total population of a country is an index of the level of industrialization of that country. As industries gather momentum in a country, ratio of urban population goes on rising. India is an agricultural country, so ratio of urban population is less than rural population.

| | |
|---|---|
| **Year 1901** | **ratio of rural population 89.2**<br>**Ratio of urban population 10.8** |
| **Year 2019** | **ratio of rural population 66.4**<br>**Ratio of urban population 33.6** |

**6. Age Structure Composition**

Age structure of the population of a country indicates the extent of which population that country is useful from the economic point of view, population in the age group 15-59 years is known as working population. Population in the age group 0-14 years and 60 and above 60 years is known as non-working population. Higher proportion of working population beneficial for the India, percentage of population in the age group of 0-14 years is still high. In India, percentage of population in the age group of 60 and above is increasing. And it indicates higher life expectancy, better health facilities and reduction in death rate in the economy. Economic development requires that ratio of Persons in the age group 15 to 59 should increase. This can be possible only if the birth rate in the country falls

**2019 (male) 0-14 28.6%**
**15-64 63.6%**
**65 and over 5.3%**

7. **Expectation of life:**
Expectation of life refers to average life of the people of the country. In India expectancy of life of people is very short. It has improved as a result of planned efforts

**1951 expectation of life 33.0 years**
**2019 expectation of life 68.89 years**
In the process of economic development, growth rate of population is not as much a determine factor as the expectation of life, people may contribute more to the production of wealth.In other countries of the world expectation of life is much longer than ours.

8. **Male/ female ratio:**
It indicates average number of female per one thousand males. In most of the nations, males outnumber the females.

**Years 1901 972 (No. of women per thousand men)**

**Years 2019 930 (No. of women per thousand men)**

9. **Literacy:**
Any person above the age 7 years, who can read and write any language, is treated as literate. According to the census of 2011, the rate of literacy in India is 74.04 percent. Male's rate of literacy is 82.14 per cent and female's rate of literacy is 65.46 per cent. The highest literacy rate in Kerala 93.9 per cent. In Bihar, the literacy rate is just 63.8 per cent. The female literacy rate of Kerala is 92 per cent which is also the highest in India. The lowest female literacy rate is in Rajasthan, it is only 52.7 per cent. In Punjab, the female literacy rate is 71.3 per cent. In Haryana, it is 66.8 per cent and in Himachal Pradesh it is 76.6 per cent. In Jharkhand, it is only 56.2 per cent. It may be noted that all the states and

union have shown increase in literacy rate during 2001-2011. In the eleventh plan, it is targeted that y 2012, the liter cy rate in India will increase to 85 per cent.

## 10. Occupational Structure of Population

Economists divide all occupations into three sectors:

**(l) Primary Sector**: It includes such economic activities as are related to husbandry, forestry, fisheries, etc. In all countries, in the initial stages of economic development, primary occupations remain dominant. But as a country heads towards economic development, proportionate share of these occupations in the national income goes on diminishing. Those countries, in whose national income, proportionate share of primary occupations is large and a big chunk of population remains engaged in these occupations, are called underdeveloped countries.

**(2 Secondary Sector:** It includes manufacturing industries, village and small-scale industries, etc, The output of primary industries is used as input in primary industries. In developed nations, more people get employment in secondary sector in comparison to primary sector. This sector is less developed in underdeveloped countries.

**(3) Tertiary Sector**: It is also referred to as "Service Industry." It includes trade, transport, and banking, Insurance, etc. Productivity of labor and income in this sector is more than the other two sectors. Growth of this sector is indicative of economic development of the country. In India, service sector is growing faster than the other economic sectors and is a dominant source of quality employment. Over 70 per cent of the growth in the employment opportunities generated over the next 10 years would be in the service sector.

Occupational distribution of Population in India

**1901 primary sector 71.7%**
**Secondary Sector 12.6%**
**Tertiary Sector 15.7%**

**2019 primary sector 54.40%**
**Secondary Sector 29.73%**
**Tertiary Sector 15.87%**

## Effects of population explosion and hurdles created by population explosion in India

**Population explosion:**

India's population increased rapidly in the post-independence period. In year 1951, size of population was 36.11 crore. Between 1951-61, it increased by more than 7.81 crore or by nearly 21.6 percent which exceed its growth rate of the previous 40 years. This excessive rise in population is called population Explosion. Since 1951, population has been increasing constantly. The size of population was 68.33 crore in the years 1981 and 102.901 crore in 2001.In the year 2011 size of population was 121.02 crore. Growth rate of population in India is extremely high. Every year there is an addition of lakh persons in our country's population. According to recent data now India population is 1.37 Billion. Thus India‘s population has almost been consistently rising at the rapid rate.

## Effects of population explosion

Population and Economic Development population is closely related to economic development. Population influences economic and economic development influences population. Accordingly, study of this problem will be done in Impact of Population on Economic Development;

(1) **<u>Impact of Economic Development on Population</u>**

(2) **<u>Impact of Population on Economic Development</u>**

There is difference of opinion among economists regarding the effect of population on economic development. These opinions are broadly classified into two categories:

**<u>(1) Inrease in Population is a Growth Promoting Factor,</u>**

**<u>(2) Increase in Population is an Obstacle to Economic Development.</u>**

**(1)Increase in Population is a Growth Promoting Factor**

Economic development of the country calls for full utilization of the available labor power of the country. It is usually said, "Manpower is the power of the nation' ' or"Manpower is nation's wealth.” In this respect, Lewis is also of the view that, "Growth is the result of human efforts.” Population may prove helpful to economic development in the following ways:

**(i) Increase in Production:**

As population increases, opportunities of division of labour increase correspondingly. Division of labour results in large-scale production. The producers enjoy external and internal economies. As a result, cost of production falls, price of the product falls per unit and the size of the market expands. Wide extent of the market means more production.

**(ii) Increase in Labour Supply:**

Population is the source of labour supply. Economic development depends upon many factors like natural resources, capital, and technology, human resources, etc. Of these, the most important factor is trained and efficient labour, it is on the efficiency of the laborer that the optimum use of other factors depends

**(iii) Increase in Demand:**

Whereas population is a source of production, it also a source of consumption. Increase in population leads to increase in consumption. It increases level of demand in the economy. When demand increases, size of the market expand", which encourages large scale production and the pattern of production diversifies, this results in increase in employment and an incentive for economic development

**(iv) Increase in Labour Productivity:**

Trained and efficient labour is treated human capital. Improvement in the qualities of manpower has a great contribution towards economic growth. Physical capital formation depends largely on human capital formation. As a result of the process of human capital formation, productivity of labour increase and the volume of production in the economy goes up. Rise in population adds to the number of producers, scientists, entrepreneurs, engineers, professionals, traders, etc. The recent growth of Indian economy is the result of increase in productivity of its human capital. Thus rise in productivity of population is an important source of economic development.

**(v) Indirectly Helps in Capital Formation:**

Disguised unemployment is found in underdeveloped countries because of large population. Nurkse and Lewis are of the view that disguised unemployment in these countries is a source of potential saving. Disguised unemployed persons can be deployed in capital formation activities. If disguised unemployed persons are shifted from villages and deployed in industries at subsistence level of wages, which are less than the prevailing wage rate in the market, then industries will have more saving. By investing these savings, capital formation can be enhanced.

It is evident from the above description that if increase in population is followed by corresponding increase in production, then increase in population is a blessing for economic development.

## (2) Increase in Population is an Obstacle to Economic Development

Increase in population has proved an obstacle to the economic development of underdeveloped countries. Long back in 1778, Malthus had opposed rise in population and suggested measures to prevent it. Increase in population is an obstacle to economic development due to following reasons:

**(i) Low Per Capita Income:**

Rise in population adversely affects per capita income. If national income remains constant, increase in population will bring down per capita income. It is so because per capita income is calculated by dividing the national income by total population. Per capita income will also fall if the growth rate of national income is less than the growth rate of population. Although the growth rate of national income of underdeveloped counties is more or less the same as that of the developed countries yet the growth rate of their per capita income is very low and they remain poor. It is so because growth rate of population in underdeveloped countries is much higher than in developed countries.

**(ii) Reduces the Rate of Capital Formation:**

Composition of population in underdeveloped countries proves hindrance in capital formation. Because of high birth rate and low average expectancy of life in these countries, ratio of dependents in total population is very high. In underdeveloped countries, between 40 per cent and 50 per cent of population consists of persons below 15 years of age. Most of these persons are dependent on others for their subsistence. They only consume but do not produce. This burden of dependents lowers the capacity of people to save. Consequently, rate of capital formation is low.

**(iii) Food Problem:**

Rapid rate of population growth gives rise to food problem in underdeveloped countries. Rise in the rate of food production is less than the rise in the rate of population growth. Per capita availability of food grains goes on falling, On account of Ion per capita availability of food, people do not get sufficient nutritive diet. It tells upon their health and their productivity falls. Fall in productivity means low per capita income aryl here poverty. To meet their food shortage, underdeveloped countries are compelled to import food grains. Thus, a large part of foreign exchange and foreign capital is spent on the import of food grains. Acute shortage of foreign exchange is felt for the import of hear" machines and raw materials which are badly needed for economic growth

**(iv) Unemployment:**

Underdeveloped countries are already overpopulated. With increase in population, supply of labour also increases correspondingly. But, due to lack of capital resources in the country, it becomes difficult to provide gainful employment to all working population. This results in rise in the number of unemployed. In underdeveloped nations, because of rising population, land-labour ratio also declines and the problem of disguised unemployment arises in villages.

**(v) Housing Problem:**

With increase in population, while land remaining the same. The problem of housing aggravates. The housing problem becomes very serious in urban and metropolitan cities. In urban areas, the rates of property go beyond the reach of common man. People have to live in small flats.

**(vi) Poor Quality of Human Resources:**

In overpopulated counties, quality of human resources is poor. Poor families having more children cannot provide good quality education- health facilities, professional training to their children. So, large share of population remains unskilled.

**(vii) Problem of Social Overhead Facilities:**

With increase in population, all problems of social overhead facilities like, transport, health and education facilities, water supply, etc crop up. Thus, a large part of available capital is invested on these social overhead facilities. Resources become scarce for projects producing basic goods. It therefore becomes to speed up the rate of economic growth.

**(viii) Vicious Circle of Poverty:**

It is the ever increasing population that is largely responsible for vicious circle of poverty in underdeveloped countries. On account of growth of population people have to spend a large part of their resources in the bringing up of their children. As a result, saving and rate of capital formation remain low. Shortage of capital renders the task of improvement in technique of production impossible. Level of production per worker, therefore, remains low. No improvement is effected in agricultural technology. Agriculture becomes backward. Again, it is due to increase in population that capital is not available setting up of the industries. Thus, it becomes impossible to break the vicious circle of poverty.

**(ix) Imbalanced Development:**

Large burden of rising population in economies falls on agricultural sector. On account of shortage of capital in Underdeveloped countries, it is not possible to absorb the rising population in manufacturing industries. Thus. Country's development is imbalanced. In India, about 49 per cent of the Population is engaged in agriculture which is a clear indication of imbalanced development

**(x) Increase in Prices:**

On account of large population and high growth rate of population, prices of the commodities rise steeply in underdeveloped countries Because of paucity of capital in these countries, productivity is low Production of different kinds therefore low. But demand rises under the impact of increasing population. Result, begin to rise abnormally.

**(xi) Adverse Effect on Environment:**

Due to rapid population growth, unemployed go to areas which are sensitive from the viewpoint of environment e.g. „ hilly regions, and thick forests, for their subsistence. They cut the forests for cultivation and thus pose a danger to the environment.

**(xii) Non-economic Problems:**

Overpopulation creates many non-economic problems like law and order problem, communal riots, poor sanitation, etc.

## Impact of Economic Development on Population

Economic development has also its effect on the growth rate of population. Theory of Demographic Transition explains the effect of economic development on the growth rate of population. The theory states that with increase in rate of economic development, growth rate of population goes on diminishing. Consequently, per capita income increases and standard of living of the people improves. In developed nations like Italy, U.K., Japan, Sweden, Germany, Canada, etc. population growth rate has come down. In some developed countries like Poland, Romania, Russia, population growth rate has become negative, while population growth rate is high in underdeveloped nations. All this reflects that economic development has significant impact on growth rate of population. With increase in level of economic development, population growth rate decreases because of following reasons:

**(1) Consciousness about Standard of Living:**
With increase in level of development standard of living of masses improves. To maintain the higher standard of living, people prefer to have small family.

**(2) Increase in Number of Working Women:**
With increase in level of economic development literacy level improves. The number of working women also increases. The literate and working women prefer to have small family.

**(3) Nuclear Families:**
With industrial development and development of industrial and service hubs like Mumbai, Bangalore, Delhi, etc, people migrate to the industrial towns in search of jobs. So joint families break down into nuclear families. In nuclear families, parents find it difficult to bring up the children. So, they go in for small family.

**(4) Busyness and Long Working Hours:**

With economic development, the private sector grows. In the private sector, the working hours are very long. People remain busy in their jobs and they don't find much time to look after their children. So, they prefer to have small family.

(5) **Increase in Awareness:**
With higher level of development, people become more aware about family planning methods and benefits of small family. It results in small family size.

**Problems of poverty**

**Meaning of Poverty**
“Poverty is the inability to get the minimum consumption requirements for life, health and efficiency." Poverty is the inabilities to fulfill even the basic requirements of life. These minimum requirements include food, clothing, housing, education and basic health requirements. Man suffers hardships in case these minimum human needs are not fulfilled and there is loss of health and efficiency. As a result, it becomes difficult to increase production and to get rid of poverty in future. In this way, poverty and fall in productivity become interdependent. The term poverty is used in two ways
(1) Absolute Poverty and
(2) Relative Poverty.

**(1) Absolute Poverty**. Absolute poverty to measure poverty, keeping in view economic conditions of a country. Economists have given many definitions of poverty in regard but in a large number of countries poverty has been defined in the context of per capita intake of calories minimum level of per capita consumption- expenditure. We shall study absolute poverty in India in both these contexts.

**(i) Calorie Criteria:**
The energy that an individual gets from the food that he eats everyday measured in terms of calories. This view was first of all presented by Lord Boyd Orr, the first Director General of World Food and Agricultural Organization. According to him, an individual must get minimum 2,300

calories per day. Those getting less than this minimum will be treated starvation/poverty line. In India, Planning Commission is of the opinion that an individual in rural area must get 2,400 calories and in urban area 2,100 calories per day.

**(ii) Minimum Consumption Expenditure Criteria:**

An Expert Committee appointed in 1962, by the Planning Commission to determine poverty line, adopted Minimum Consumption Expenditure Criteria. As per this committee, those people will be treated as living below the poverty line whose per capita consumption expenditure at 2004 prices is below 368 per month in rural areas and below 559 per month in urban areas, these consumption expenditures were fixed by National Sample Survey Organization (NSSO) in the year 2004. In 2009-10, Tendulkar committee raised the poverty line based on consumption expenditure as per 66$^{th}$ survey of NSSO and price level in 2009-10 to 673 per capita per month in rural areas and 860 per capita per month in urban areas.

**(2) <u>Relative Poverty:</u>**

Relative poverty refers to poverty on the basis of comparison of per capita income of different countries. The country whose per capita income is quite less in comparison to other countries is treated as relatively poor nation. In poor nations that part of population which is living at the bottom (whose income is less), is unable to fulfill the basic requirements of life.

India’s GDP per capita income is 2104.20 US dollars as compared to US is 54541.70 and Australia 56919.40 US dollars.

## Poverty Line

Poverty line is the line which indicates the level of purchasing power required to satisfy the minimum needs of a person. In other words, it represents the capacity to satisfy the minimum level of human needs. The purchasing power can be expressed in the form of average per capita monthly expenditure. If we have an idea of the minimum level of purchasing power required to keep a person at a minimum level of living, a little below which he would be considered as poor, this "Purchasing Power" could then be called poverty line. This line divides the population in two groups, one of those who have this purchasing power or more and the other group of those people who do not have this much of purchasing power. The former group is regarded as living "Above the Poverty Line (API)" These people are not regarded as poor. The latter group is considered as living "Below the Poverty Line (BPI a)". These people are called poor. Thus, the poverty line divides the people into two groups (i) one of those who have the minimum required purchasing power or more. This group is not considered as poor, and (ii) the other group of those people who do not have this much of purchasing power, and hence they are called poor.

## Determination of Poverty Line in India:

The earlier poverty line figure was Rs 27 for rural India and Rs 33 for urban India. The Rangarajan report has added 93.7 million more to the list of the poor assessed last year as per the Suresh Tendulkar committee formula. Now the total number of poor has reached 363 million from 269 million in 2011-12.

## Causes of Poverty

### (a) Heavy Pressure of Population:

Population in India has been increasing very rapidly. As per census 2011, our population size was 121 crore and growth rate was 1.3 per cent, this pressure of population is a major obstacle in economic development. In spite of increase in total production, per capita income, per capita land, pet' capita availability of different social service" and food grains has been very less, 'Thus the main cause of poverty in India is large size of population,

### (b) Increase in Prices

In India prices show increasing tendency. Rise in prices has worst effect on poor population. Poor persons unable to meet their basic needs. It expands poverty.

### (c) Less National Income and Slow Economic Growth:

As compared to populations, growth of national income of India is also very low, hence per capita income is also low. Net national income of India in year 2017-18 was 2726.32 billion US dollar and its population was 1.37 Billion. Per capita income was Rs 10534 per month only. Low national income and low per capita income are the cause of our poverty. Growth rate of Net domestic Product has also been very low during the period of five year plans in India. It has been 5 per cent during the period of planning, ()n the other hand, population has been growing at the rate of 2 per cent, Thus, growth rate of national income has been slow. On account of slow growth rate, poverty could not be eradicated.

**(d) <u>Chronic Unemployment and Under-employment:</u>**

Problem of unemployment is a big use of poverty. In India, the problem of unemployment is very serious. In 2009-10, the number of unemployed in India was around 2.80 crore. As of September 2018, according to Indian government , India had 31 million jobless people.

**(e) <u>Rural Economy:</u>**

Indian economy is predominantly rural economy. The main occupation in rural areas is agriculture. About 50 per cent of population of India is dependent on agriculture, whereas in other countries, a very small proportion of population is engaged in agriculture. For example, in Britain and America this proportion is 1 per cent and in Japan it is 2 per cent. In India. 50.2 per cent of the total population is engaged in agriculture but its contribution to the national income is only 13.9 per cent, it means that despite India being predominantly an agricultural country. It is very much backward in agriculture.

**(f) <u>Capital Deficiency:</u>**

Capital has a special role to play in the establishment of industry, trans-port, irrigation and other means of development. Hence, an important factor accounting (or the economic backwardness of a country is the deficiency of capital. India is no exception. Here the power of the people to save capital is very little. Less savings lead to less investment, which in turn leads to less income in the county.

**(g) <u>Lack of Able and Efficient Entrepreneurs:</u>**

In the early stages of industrial development of a country there is need for such entrepreneurs who are initiative and imaginative, who are competent and proficient in their trade and who can take risk in a bold manner. Unfortunately, there is an acute shortage of such entrepreneurs in our country. Consequently, only those industries have developed which do not involve much risk. It has restricted industrial development of our nation. So income of the people has remained low.

**(h)<u>Lack of Proper Industrialization:</u>**

India has backward industrial structure. No doubt, consumers' goods industries like soap, cloth, sugar, leather, oil, etc. have developed to a large extent but capital and producers' goods industries have not yet developed properly. We still have to depend on foreign countries with regard to these industries. It has led to low national income and poverty.

**(i) <u>Outdated Social Institutions:</u>**

The social base of our country's economy lies in its social institutions and traditions. These institutions and traditions are — caste system, joint family system, laws of inheritance and succession, etc. All these customs and traditions create hindrance in the path of economic development. Often poor people waste a lot of money on observing social customs, rituals. Obligations, unproductive activities and functions like marriage, death, festivals, etc. For this they spend their hard eamed money or even borrow funds. It lands them in debt trap. The same money could be used in productive activities to increase the income.

**(j) <u>Underutilization of Natural Resources:</u>**

India is a rich country from the point of view of natural resources. Valuable minerals like iron, coal, manganese, mica, etc. are available in large quantities. Rivers flowing all the year are the rich source of hydroelectricity. There are different kinds of soils which are capable of growing large variety of crops. Manpower is also abundant. However, all these resources have not been properly exploited in India. Underutilization of natural resources means less economic activities which leads to poverty

**(k)** **Lack of Well-developed Means of Transport:**

Keeping in view the large size of the country, development of means of transport is not satisfactory. Their availability especially in rural areas is very much unsatisfactory. Road transport which is the basic necessity of modern times is in a very bad shape. Due to lack of well-developed road and rail transport, agricultural marketing is difficult, industries do not get raw material in time and produced goods are not distributed satisfactorily.

**(l)** **Unequal Distribution of Income:**

Another main cause of poverty in India is unequal distribution of income. Attempts have been made in plans to remove inequality in distribution of income through taxation and other measures. But despite these measures concentration of wealth and inequalityof income persists. According to Human Development Report 2009, top 10 per cent holds 31.1 per cent of our national income, while bottom 10 per cent population has only 3.6 per cent of national income. This is a clear indication of prevailing inequality of income in India. So persons at bottom level are living in absolute poverty.

**(m)** **Natural Calamities:**

Indian economy is mainly dependent on agriculture. Inadequate excessive monsoon (rainfall) has deep impact on Indian agriculture. Floods or droughts are very common in India. These not only affect agriculture sector but also affect industries which are dependent on agriculture for their raw materials. Natural calamities like floods, droughts, earthquakes, tsunami, etc. affect the poor segments very badly.

**(n)** **Corruption:**

Because of corruption, benefit of economic planning, social welfare programmes, poverty alleviation programmes does not reach the poor segments of population. Moreover poor people suffer because of corruption in public recruitments.

**(o)** **Poor Work Culture:**

In India people have poor work culture. People in India are lethargic. They do not make much effort to earn money. In doing below status jobs, they feel ashamed in society. It results in low income.

**(p) <u>Lack of Technical Education:</u>**

In India there is more spread of general education than vocational or technical education. After completing their general education the students do not get jobs or do not get much skill to start self-employment. Moreover, because of lack of technical education. There is shortage of skilled and trained labour force in India.

## Measures Undertaken by the Government to Remove Poverty

In year 2009-10, government has targeted to reduce the proportion of people living below poverty line to Less than half from the current levels by year 2014. The measures undertaken by the government for alleviation of poverty may be classified in the following three categories:

**(i) Employment Generation Programmes.**
**(ii) Programmes related to Acquisition of Productive Assets.**
**(iii) Other Programmes.**

## Employment Generation Programmes

The employment generation programmes aim at increasing the income of the poor by providing them productive employment. The government has adopted following employment generation schemes for eradicating poverty:

**(1) <u>Swaranjayanti Gram Swarozgar Yojana (SGSY):</u>**

To promote self-employment and to remove poverty from rural areas, a new programme has been launched in villages, in April 1999. It is known as Swaranjayanti Gram Swarozgar Yojana. Under this programme a large number of small enterprises are established in rural areas. The small enterprises are organized as individual enterprises as well as on collective basis as Self Help Groups. The poor are granted loans and subsidies to establish these enterprises. Subsidy for SGSY is 30 per cent of cost of project for individuals and 50 per cent for Self Help Groups. The expenditure on SGSY is shared by central and state governments in the ratio of 75:25. Since the inception of this programme, up to the end of September 2011, 42.05 lakh SY IGs have been formed benefitting 168.46 lakh swarojgaris.

**(2) Sampoorna Grameen Rozgar Yojann (SGRY)**: Sampootna Grameen Rozgar Yolana was launched on 1st September, 2001. The main objectives of this Yojana ate: (l) to provide opportunity to rural poor, (ii) Food Security. (iii) Development of the community, Economic and social assets, (IV) Development of the basic infrastructure. This Yojana has set a target of creating 100 crore man days for labour. The central and state governments bear the cost of this project in the ratio of 87.5:12.5.In this programme wages are distributed in the form of food grains. Under this programme project like roads, wells, tanks, embankments of rivers. etc. are undertaken. It leads to setting up of infrastructure and creation of employment.

**(3) National Food for Work Programme**: In November 2004, Government started national food for work programme in 150 most backward districts of the country. In this programme, wages are distributed in the form of food grains. It will enhance employment avenues and promote food security. This scheme is aimed at all rural poor persons.

**(4) Small and Cottage Industries**: Small-scale industries are based on labour intensive technology. So these have more employment potential. Special measures have been taken by the government to develop small and cottage industries with a view to removing poverty and unemployment, various tax concessions and incentives are given to these industries. Some areas of production are exclusively reserved for small-scale industries.

**(5) Prime Minister Rozgar Yojana (PMRY):** The scheme is meant for providing self employment to educated unemployed. In 2008-09, this Yojana was renamed as 'Prime Minister Employment Generation Programme'. In 2009-10, 4.20 lakh employment opportunities have been generated under this programme.

**(6) SwaranjayantiShahri Rozgar Yojana (SSRY)**: This plan began on December 1. 1997. It aims at providing self-employment or wage employment to urban unemployed and under-employed persons. It comprises of two programmes:

**(i) Urban Self Employment Programme**

**(ii) and Urban Wage Employment Programme (UWEP)**

In urban self-employment programme, the person starts his own work/business and earns profit. While in urban wage employment programme, the person takes employment as employee with some Other person and gets wages/salary for his work. Of the total expenditure on the Yojana, 75 per cent will be borne by the centre and 25 per cent by the state governments.

**(7) Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA):** Government enacted Mahatma Gandhi National Rural Employment Guarantee Act in 2005 and in year 2006-07 this programme was implemented in 200 districts of the nation. Now this employment guarantee Act is extended to all 640 districts of the country. It provides at least 100 days of guaranteed wage employment in every financial year to the poor persons living in rural areas. In this scheme, 4.99 crore households were provided job in the year 2011-12.

## Programmes Related to Acquisition of Productive Assets

These programmes are related with the schemes providing loans to the poor at a very low rate of interest, so that they can acquire productive assets. The poor may increase their income by utilization of productive resources. It will help in alleviation of poverty. Government has started following schemes related to acquisition of productive assets:

**(1) Differential Rate of Interest Scheme:** The differential rate of interest scheme was launched in '1972 to advance loans to the poor at the very low rate of interest of 4 per cent per annum. Under this scheme at least two-third amount of loans are advanced to the rural poor. The poor may set up self-employment enterprise by investing the capital obtained through these loans. Consequently their income will increase and poverty may be alleviated.

**(2) Pradhan Mantri Gramodya Yojana**: This programme was introduced in 2001. Its main objective is to improve the quality of life of people in the rural areas. Under this scheme, concessional loans are given to villagers for purchase of milk-producing-cattle and other productive assets.

**(3) Concessional Loans to Start Cottage and Small industries:** Government provides concessional loans to start small, village and cottage industries.

**Other Programmes for Alleviating Poverty**

**(1) Minimum Needs Programme**: To raise the standard of living of the poor, Minimum Needs Programme was launched during Fifth Plan. The programme covers areas such as primary education, adult education, rural health, rural water supply, rural roads, rural electrification, rural housing and ecological improvement of urban slums. It has proved very beneficial to poor and weaker sections.

**(2) Twenty Point Programme:** Twenty Point Programme was launched in the year 1982, with a view to bringing prosperity to masses and relieving them from the bonds of poverty. Its main points were — fixing minimum wages for agriculture workers, provision of houses in rural areas, expansion of public distribution system, rehabilitation of bonded labour, increase in irrigation facilities, etc.

**(3) Annapurna:** This scheme came into effect from April 1, 2000. It aims at providing food security to meet the requirement of senior citizens. In this scheme 10 kg of food grains per month are provided to senior citizens living below poverty line at concessional rates.

**(4) Shiksha Sahayog Yojana:** The scheme has been finalized for providing educational allowance of 100 per month per child to the children of parents living below poverty line for their education from the 9th to 12th standard.

**(5) National Social Assistance Programme:** This programme was launched in 1995-96 to help the poor. It consists of the following schemes:

**(a) Indira Gandhi National Old Age Pension Scheme:** Under this scheme, pension Of 75 per month is provided to the persons above the age of 65 years and living below poverty line. From first April, 2006, this pension has been increased to 200 per month. In 2008-09, Indira Gandhi National Old Age Pension Scheme has been extended to all BPL persons above the age of 60 years. In 1lth Plan it is proposed to provide minimum pension of 400 per month, funded equally by centre and states• At present, 18 states are providing pension of 400 per month and in remaining states it is 200 per month by way of central assistance. Central government has also started disbursement of pension of per month to BPL widows in the age group of 40 to 59 years under Indira Gandhi National Widow Pension Scheme.

**(b) National Family Benefit Scheme**: Under this scheme, in case of accidental death of prime Dread earner. in the age group of 18 to 64 years, a lump sum of 20,000 is provided to the family. living below poverty line.

**(c) Maternity Benefit Scheme**: Under this scheme, maternity benefit of 300 per month is provided to the poor expectant mother. This benefit is given only for first two births.

**(d) JanshreeBima Yojana**: This scheme was launched in the year 2000 for group insurance BPL persons. Under these scheme beneficiaries in the age group of 18 to 59 years get compensation in case of death or disability. The premium under this insurance scheme is 200 per annum, 50 per cent of which is met by central government.

**(e) Antodya Anna Yojana:** In this scheme food grains at subsidized rates of 2 per kg for wheat and 3 per kg for rice are provided to the poorest of poor families. In this scheme subsidized food grains weighing 35 kg per family per month are distributed through public distribution system to the poorest of poor families from amongst the below poverty line families. The coverage of this Yojana has increased to 2.43 crore families in the year 2009-10.

**(f) Aam Admi Bima Yojana (AABY):** In the year 2007, AABY has been framed by government for rural landless households in the age of 18 to 59 years for life insurance. In this Yojana head of family or one earning member of the family is insured. The central government bears 50 per cent of the premium of

200 per person per year and the remaining 50 per cent premium is borne by the state government. In case of natural death 30,000 and in case of accidental death 75,000 are provided.

**(g) Targeted Public Distribution System (TPDS):** The BPL families which are not covered in Antodya Anna Yojana are covered in targeted public distribution system. In this system, 35 kg food grains per month Per family are supplied to below poverty line families @ 4.15 per kg for wheat and 5.65 per kg for rice.

**(h) Bharat Nirman**: In year 2005-06, a nuv scheme Bharat Nirman has been launched; in this scheme rural infrastructure is created to remove poverty from rural areas. In this scheme all villages will be connected with road; all villages to be provided with telephone connectivity, electricity, safe drinking water. This scheme will also promote rural houses and improvement in irrigation.

**(i) RashtriyaSwasthyaBima Yojana**: This Yojana is started from 1st April, 2008.•ln this Yojana a health cover of 30,000 is provided to workers of BPL category, engaged in unorganized sector• Premium of 750 per family per year of this Yojana will be borne by central government and state government in the ratio of 75 : 25. Under this Yojana smart cards are issued to beneficiaries to enable cashless transactions for healthcare. Under this scheme, over 2.55 crore smart cards have been issued till 20th December, 2011.

**(j) Indira Awas Yojana (IAY) and Rajiv Awas Yojana (RAY):** The objective Of IAY is to Provide financial assistance for construction/upgradation of houses to BPL rural households, widows and Physically handicapped persons living in rural areas. The scheme is funded on a cost sharing basis of 75 • 25 between the centre and the states. In IAY, 72 lakh houses have been constmcted during four years from 2005-06 to 2008-09. In IAY, it has been proposed to construct 120 lakh houses during five year period from 2009-10 to 2013-14. out of which 65.46 lakh houses have been constructed upto the end of July 2011 , Rajiv Awas Yojana has been launched to provide financial assistance for construction/ upgradation of houses to urban poor families. RAY aims to make the country slum fiee•

# Unemployment in India

Unemployment may be defined as "a situation in which the person is capable of working both physically and mentally at the existing wage rate, but does not get a job to work".

## Types of Unemployment in India:

### *1. Open Unemployment:*

Open unemployment is a situation where in a large section of the labour force does not get a job that may yield them regular income. This type of unemployment can be seen and counted in terms of the number of unemployed persons. The labour force expands at a faster rate than the growth rate of economy. Therefore all people do not get jobs.

### *2. Disguised Unemployment:*

It is a situation in which more people are doing work than actually required. Even if some are withdrawn, production does not suffer. In other words it refers to a situation of employment with surplus manpower in which some workers have zero marginal productivity.

So their removal will not affect the volume of total production. Overcrowding in agriculture due to rapid growth of population and lack of alternative job opportunities may be cited as the main reasons for disguised unemployment in India.

### *3. Seasonal Unemployment:*

It is unemployment that occurs during certain seasons of the year. In some industries and occupations like agriculture, holiday resorts, ice factories etc., production activities take place only in some seasons. So they offer employment for only a certain period of time in a year. People engaged in such type of activities may remain unemployed during the off-season.

***4. Cyclical Unemployment:***

It is caused by trade cycles at regular intervals. Generally capitalist economies are subject to trade cycles. The down swing in business activities results in unemployment. Cyclical unemployment is normally a shot-run phenomenon.

*5**. Educated Unemployment:***

Among the educated people, apart from open unemployment, many are underemployed because their qualification does not match the job. Faulty education system, mass output, preference for white collar jobs, lack of employable skills and dwindling formal salaried jobs are mainly responsible for unemployment among educated youths in India. Educated unemployment may be either open or underemployment.

***6. Technological Unemployment:***

It is the result of certain changes in the techniques of production which may not warrant much labour. Modern technology being capital intensive requires less labourers and contributes to this kind of unemployment.

***7. Structural Unemployment:***

This type of unemployment arises due to drastic changes in the economic structure of a country. These changes may affect either the supply of a factor or demand for a factor of production. Structural employment is a natural outcome of economic development and technological advancement and innovation that are taking place rapidly all over the world in every sphere.

***8. Underemployment:***

It is a situation in which people employed contribute less than their capacity to production. In this type of unemployment people are not gainfully employed. They may be employed either on part-time basis, or undertake a job for which lesser qualification is required. For example a Post Graduate may work as a clerk for which only S.S.L.C. is enough.

***9. Casual Unemployment:***

When a person is employed on a day-to-day basis, casual unemployment may occur due to short-term contracts, shortage of raw materials, fall in demand, change of ownership etc.

***10. Chronic Unemployment:***

If unemployment continues to be a long term feature of a country, it is called chronic unemployment. Rapid growth of population and inadequate level of economic development on account of vicious circle of poverty are the main causes for chronic unemployment.

***11. Frictional Unemployment:***

Frictional unemployment is caused due to improper adjustment between supply of labour and demand for labour. This type of unemployment is due to immobility of labour, lack of correct and timely information, seasonal nature of work. etc.

# Measurement of Unemployment:

There are three measures or estimates of unemployment. These are developed by National Sample Survey Organisation (NSSO). They are:

***1. Usual Status Unemployment:***

Also known as open unemployment or chronic unemployment. This measure estimates the number of persons who remained unemployed for a major part of the year. This measure gives the lowest estimates of unemployment.

This concept used to determine the usual activity status of a person as employed or unemployed or outside the labour force. The persons covered may be classified into those working or available for work in their principal activity sector and subsidiary sector.

***2. Weekly Status Unemployment:***

The estimate measures unemployment with respect to one week. A person is said to be unemployed if he is not able to work even for an hour during the survey period. In other words according to this estimate a person is said to be employed for the week even if he/she is employed only for a day during that week.

***3. Current Daily Status Unemployment:***

It considers the activity status of a person for each day of the preceding seven days. The reference period here is a day. If a person did not find work on a day or some days during the survey week, he/she is regarded as unemployed.

Normally if a person works for four hours or more during a day, he or she is considered as employed for the whole day. The daily status unemployment is considered to be a comprehensive measure of unemployment.

# Causes of Unemployment in India:

The important causes of Unemployment in India are as follows:

1. Rapid growth of population and increase in labour force.

2. Underdevelopment of the economy.

3. Slow growth in the agricultural sector.

4. Defective system of education.

5. Absence of manpower planning.

6. Degeneration of village industries.

7. Inappropriate technology.

8. Slow growth of industrial sector.

9. Immobility of labour.

10. Jobless growth.

# Inflation

Inflation is a situation in which the general price level rises or it is the same thing as saying that the value of money falls.

According to Coulbrun, "too much money chasing to few goods". Crowther defines, "inflation is a state in which the value of money is falling".

## ***Types of Inflation:***

On the basis of the rate of increase in price level we have three types of inflation,

**(i) Creeping Inflation:**

It is also known as mild-inflation. It is not dangerous specially in an economy where national income is also rising. There are some economists who regard a mild increase in the price level as a necessary condition for economic growth.

**(ii) Galloping Inflation:**

If mild inflation is not checked and if it is allowed to go uncontrolled, it may assume the character of the galloping inflation. It may have adverse effect on saving and investment in the economy.

**(iii) Hyper-Inflation:**

A final stage of inflation is hyper-inflation. It occurs when the Priceline goes out of control and the monetary authorities find it beyond their resources to impose any checks on it. At this stage, there is no limit to which the price level may rise.

# ***Causes of Inflation:***

The causes of inflation may be grouped under two headings:

**(1) Demand-pull Inflation:**

The inflation represents a situation whereby "The pressure of aggregate demand for goods and services exceeds the available supply of output." In such situation, the rise in price level is the natural consequence.

Now this excess of aggregate demand over supply may be the result of more than one force at work. As we know, aggregate demand is the sum of consumer's spending on current goods and services and net investment being contemplated by the entrepreneurs.

At times, however, the government, the entrepreneurs or the households may attempt to secure a larger part of output than would thus accrue to them. Inflation is thus caused when aggregate demand for all purposes-consumption, investment and government expenditure exceeds the supply of goods at current prices. This is called demand-pull inflation.

**(2) Cost-Push Inflation:**

Even though there is no increase in aggregate demand, prices may still rise. This may happen if costs, particularly the wage costs, go on rising. Now as the level of employment rises, the demand for workers also rises, so that the bargaining position of the workers becomes stronger.

To exploit this situation, they may ask for an increase in wage rates which are not justifiable on grounds either of a prior rise of productivity or of cost of living. The employers in a situation of high demand and employment are more agreeable to concede these wage claims, because they hope to pass on this rise in cost to the consumers in the shape of rise in prices. If this happens, we have another inflationary factor at work and the inflation thus caused is called the wage-induced or cost-push inflation.

# Inequality

Inequality is concerned with disparities in the distribution of a certain metric, which can be income, health or any other material or non-material asset. Inequality typically refers to **within country inequality** on individual or group level, such as between gender, urban and rural population, race etc. I**nequality among countries** is referred to as international inequality.

# Causes of Income Inequalities in India

There are various factors responsible for this phenomenon. We may group them under the following four heads:

**1. Growth Factor:**
As development proceeds, the earnings of different groups rise differently. The incomes of the upper-income and middle-income groups rise more rapidly than those of the poor. This happens in the early stages of growth through which India is passing at present.

The explanation lies in the shift of population from agriculture which is a slow growing sector to the modern large industrial sector which grows more rapidly. Again, there is the capital-intensive nature of the development of the modern sector.

Since this absorbs less labour, wages form a smaller proportion of total income. Hence, the income spread is not wide enough. On the other hand, the capital-intensive type of growth leads to concentration of income in those few hands who supply capital.

**2. Highly Unequal Asset Distribution:**
Incomes are derived from two main sources, namely, assets like land, cattle, shares, etc., and labour. In India a few own a large chunk of income – earning assets. Some others, who do not own, or own a part of the assets they operate, organise finances through banks, cooperatives, etc, and acquire/hire productive assets.

 

These inequalities enable the few to get incomes in the form of rent, interest and profit. As these assets accumulate and pass on from generation to generation, the earning capacity of these increases continuously.

As for rural areas, the ownership pattern of the most important asset, namely, land, is highly unequal. The marginal households (with holdings less than 1 hectare), which account for as many as 72 per cent of the rural households own very little about 17 per cent of the land.

At the other end, there are those with large holdings (of more than 10 hectares) who are about 1 per cent of the rural households. But they have under their ownership as much as 14 per cent of the area.

Private ownership of property and inheritance laws is mainly responsible for highly unequal distribution of assets.

**3. Inadequate Employment Generation:**

People at the bottom could raise their economic status and to an extent reduce the distance separating them from those at the top, if they could get work. In other words, if they did not possess adequate earning assets, they could at least earn from their labour.

But there too the situation was not favourable. For long the increase in employment opportunities remained less than the rise in the labour force.

**4. Differential Regional Growth:**

Of the large many at the bottom rung of incomes, a very great proportion lives in the poor backward states regions, and most of the few at the top live in the high-income states regions.

This is the geographical facet of income inequalities for the country as a whole. Within the states also there are inequalities, perhaps larger in the poorer states. Both these aspects are the outcome of the different growth rates of the states, with a few having grown at a fast rate, and many having lagged behind.

# Concept of Black Money

Black money is tax-evaded income. It can be earned both through legal and illegal means. Its legitimate source is that the income-earners do not reveal their whole income for tax purposes. For example, government doctors earning money by private practice even when they get non-practising allowance; teachers earning money through tuitions, examinations and book royalty and not including it in income-tax returns; advocates charging much higher fee than shown in their account books, and so forth.

Its illegitimate source is bribe, smuggling, black-marketing, selling commodities at prices higher than the controlled prices, taking pugree for house, shop, etc., selling house at a high premium price but showing it at much lower price in the account books, and so on.

It is possible to convert black money into white money and vice versa. For example, when a person manages to get the receipt from the shopkeeper by paying sales-tax for a commodity but does not purchase it actually, he generates black money as reimbursement is made to him against the receipt.

The money not actually paid is the black money in this case. In such case, the shopkeeper sells the same commodity to another person without giving him any receipt for it. On the other hand, if a person purchases second-hand car and pays Rs. 90,000 for it out of white money but gets a receipt of only Rs. 60,000, the balance of Rs. 30,000 becomes black money for the seller. In this case, white money becomes black money.

# Causes of Black Money in India –

Ten Main Causes of Black Money in India are: 1. Unrealistic Tax Laws and Tax Frauds, 2. Different Rates of Excise Duty, 3. Control Policy, 4. Quota System, 5. Scarcity, 6. Inflation, 7. Elections in a Democratic System and Political Funding, 8. Real Estate Transaction, 9. Privatisation, 10. Agricultural Income.

**1. Unrealistic Tax Laws and Tax Frauds:**

The increase in taxes and duties compels some people to evade them.

**2. Different Rates of Excise Duty:** Within similar products, there are different rates of excise duty. For instance, in textiles and cigarettes, this leads to tax evasion through misclassification of output. In textiles, separate rates of excise are charged for cloth of different varieties. Manufacturers regularly downgrade a product to pay lower rates of excise. This alone generates Rs. 1,000 crore a year in black money. For the entire manufacturing sector, including steel, evasion in excise, custom and sales taxes accounts for over Rs. 50,000 crore in black money every year.

**3. Control Policy:**

Another cause of black money is the price control policy of the government. In selecting commodities for control and in determining their prices, the government fails to take into account the elasticity's involved in demand and supply.

For example, according to the report of the National Council of Applied Economic Research (NCAER) for the year 1981, black money worth Rs. 840 crore was created in the Indian economy over the period of nine years from 1965-66 to 1974-75 as a result of the operation of price controls in six commodities, viz., cement, steel, paper, vanaspati, automobile tyres and fertilisers.

Similarly, as result of control on sugar, about Rs. 400 crore of black money were generated in the year 1991-92. Regulation of foreign exchange also leads to over-invoicing of imports and under-invoicing of exports and black-marketing of currency. Thus, the more stringent the measures of control and the more regulated an economy, the greater will be the effort to violate it which will increase hoarding, fraud, artificial scarcity and the resultant black money.

**4. Quota System:**

Yet another source of black money is the quota system. The import quota, the export quota and the foreign exchange quota are generally misused by selling them at a premium. Unrealistic controls spawn a culture which encourage corporate to break the tax laws, particularly FERA laws. When the government came out with a scheme a few years ago (1992-93) to allow exporters to import goods without paying any customs duty, ingenious ways were devised to make money even out of this scheme, i.e., through over-invoicing exports to get more import benefits as well as avail of the tax setoffs given to exports. During 1992-96, the Directorate of

Revenue Intelligence (DRI) and the Customs authorities detected 605 such cases. One export house (Ganpati Exports) benefited as much as Rs. 85 crore .

**5. Scarcity:**

Black money is also caused by scarcity and defective public distribution system. When essential goods become scarce, people have to pay higher than the controlled price, which generates black money. The scarcity of cooking gas, cement, kerosene, sugar, refined oil, etc., has always resulted in illegitimate transactions and black money.

**6. Inflation:**

The increase in prices of commodities like petrol, etc., in international market, increase in prices of commodities due to high increase in duties and taxes imposed by the government, conspicuous consumption indulged in by people with unaccounted money, diverting resources from production to speculation—all these cause inflation which in turn creates black money.

**7. Elections in a Democratic System and Political Funding:**

Each election in the country involves an expenditure of thousands of crores of rupees. For contesting Lok Sabha election, a candidate normally spends more than one million rupees and for contesting Vidhan Sabha election, one spends more than Rs. 5 lakh in the present times.

It is estimated that a single Lok Sabha election alone could see political parties spend around Rs. 1,000 crore to pay for poll expenses. Politicians also need to draw on business resources to nurse their constituencies. Given the mind-boggling numbers, black money naturally is built into the system.

For funding politicians, even honest corporate houses have no option but to find ways to generate unaccounted-for money. Since the expenditure allowed by law for a candidate is limited and the companies are allowed to give up to 5 per cent of their profits as donations to political parties for elections, elections are generally financed by black money holders.

These people expect political patronage and economic concessions which are obtained with the consent and the connivance of political elite in power in the form of artificial controls on commodities, laxity in the means of distribution, etc. All these methods create black money.

**8. Real Estate Transaction:**

Estate transaction is an important source of generating black money. In these days, purchasing a house and/or land is considered to be very profitable. There is a growing tendency to transform rural agricultural land into urban residential land due to paucity of building sites in the urban areas.

Establishing unapproved colonies on agricultural land is illegal. The transaction value shown by the colonisers in registration deeds is much less than the actual amount of the market value. This enables the seller of the land to evade capital gain tax. According to an estimate, illegal transaction of property alone generates about Rs. 2,000 crore of black money in a year, assuming that there are about 50 lakh transactions in urban property every year.

The high rates of stamp duty—ranging between 15.4 per cent and 28 per cent in different states—are a major cause of under-valuation of property and unreported deals, or both. The suggestion is that if duties are reduced to 2 per cent to 3 per cent, it will prevent evasion. Another hurdle is the Urban Land Ceiling Act, which reduces the supply of land and creates a flourishing black market. Roughly over Rs. 13,000 crore a year are generated through the real estate route.

**9. Privatisation:**

Privatisation has opened up a new area to the private sector as well as to ministers and bureaucrats for making black money. Take the example of the Ministry of Communication in 1996 in which the minister concerned (in Narasimha Rao's government) had the authority of sanctioning contracts and licences worth Rs. 1,50,000 crore.

The minister rode roughshod over departmental colleagues to give contracts to favoured companies. While the case is still pending (in October 1999) against the former minister in the courts, the Income Tax Department alone was said to be thinking (in November 1996) of realising from him a fine of Rs. 20 crore for violating the income tax rules.

However, it could not do so. The former Union Steel Minister (in Narasimha Rao's government) was another powerful person who had been accused of having made huge black money of Rs. 16 crore by clearing the privatisation of a mine at a very low price to one concern in September 1995.

A public outcry finally saw the deal getting shelved, though the minister managed to get away. The Petroleum Ministry also was involved in a scam relating to privatisation. The ministry threw open select oil fields in 1992.

In one deal, a particular concern was awarded a contract for an oil field and the former Petroleum Minister is alleged to have received Rs. 7 crore for helping the group in getting the contract. It is expected that many scams will come to light for making black money through privatisation.

**10. Agricultural Income:**

The unwillingness of the rulers on political grounds to bring agricultural income in the ambit of income tax has also contributed to generation of black money. Big industrial houses, over the past few decades, have entered the agriculture sector in a big way by acquiring large farms, growing and producing nothing. The black money accrued from other sources is sought to be converted into white by showing it on the agricultural income account. Taxing agricultural income may help contain this phenomenon.

# UNIT-2

## Major Problems of Indian Agriculture

**The following points will highlight the seven major problems of Indian agriculture.**

**Problem # 1. Instability:**

Agriculture in India is largely depends on monsoon. As a result, production of food-grains fluctuates year after year. A year of abundant output of cereals is often followed by a year of acute shortage.

This, in its turn, leads to price income and employment fluctuations. However, for the thirteen year, in successive (1987-88 to 1999-00) a normal monsoon has been observed

**Problem # 2. Cropping Pattern:**

The crops that are grown in India are divided into two broad

categories: food crops and non-food crops. While the former comprise food-grains, sugarcane and other beverages, the latter includes different kinds of fibres and oilseeds.

In recent years there has occurred a fall in agricultural production mainly due to fall in the output of non-food articles. Moreover rabi production has become as important as kharif production in the late 1990s. In 1999-2000, for example, of the total grain production of 209 mn. tones, rabi accounted for 104 mn. tones. This indicates a structural change in agricultural production.

**Problem # 3. Land Ownership:**

Although the ownership of agricultural land in India is fairly widely distributed, there is some degree of concentration of land holding. Inequality in land distribution is also due to the fact that there are frequent changes in land ownership in India. It is believed that large parcels of land in India are owned by a- relatively small section of the rich farmers, landlords and money-lenders, while the vast majority of farmers own very little amount of land, or no land at all.

Moreover, most holdings are small and uneconomic. So the advantages of large-scale farming cannot be derived and cost per unit with 'uneconomic' holdings is high, output per hectare is hectare is low. As a result peasants cannot generate sufficient marketable surplus. So they are not only poor but are often in debt.

**Problem # 4. Sub-Division and Fragmentation of Holding:**

Due to the growth of population and breakdown of the joint family system, there has occurred continuous sub-division of agricultural land into smaller and smaller plots. At times small farmers are forced to sell a portion of their land to repay their debt. This creates further sub-division of land.

Sub-division, in its turn, leads to fragmentation of holdings. When the size of holdings become smaller and smaller, cultivation becomes uneconomic. As a result a major portion of land is not brought under the plough.

Such sub-division and fragmentation make the efficient use of land virtually impossible and add to the difficulties of increasing capital equipment on the farm. All these factors account for the low productivity of Indian agriculture.

**Problem # 5. Land Tenure:**

The land tenure system of India is also far from perfect. In the pre-independence period, most tenants suffered from insecurity of tenancy. They could be evicted any time. However, various steps have been taken after Independence to provide security of tenancy.

**Problem # 6. Conditions of Agricultural Labourers:**

The conditions of most agricultural labourers in India are far from satisfactory. There is also the problem of surplus labour or disguised unemployment. This pushes the wage rates below the subsistence levels.

**Problem # 7. Other Problems:**

There are various other problems of Indian agriculture.

**These are related to:**
(i) The systems and techniques of farming,

(ii) The marketing of agricultural products and

(iii) The indebtedness of the farmers.

**These problems may now be discussed separately:**

(i) The Systems and Techniques of Farming:

**(a) Neglect of crop rotation:**

Successful conduct of agricultural operations depends upon a proper rotation of crops.-If cereals are grown on a plot of land its fertility is reduced to some extent. This can be restored if other crops such as pulses are grown on the same plot on a rotational basis. Most farmers in India are illiterate and do not understand this important point. Since they are not aware of the need for crop rotation they use the same type of crop and, consequently, the land loses its fertility considerably.

**(b) Inadequate use of manures and fertilisers:**
Inadequate use of manures like cow-dung or vegetable refuge and chemical fertilisers makes Indian agriculture much less productive than Japanese or Chinese agriculture.

**(c) The use of poor quality seeds:**
In India, not much use has been made of improved varieties of seeds. The main cereals (rice, millets and pulses) are still grown chiefly with unimproved seeds.

**(d) Inadequate water supply:**
Farmers also suffer due to lack of irrigation facilities. Moreover, ordinary varieties of seed can be replaced by better varieties if there is an assured supply of water. The need for the construction of minor irrigation works of a local nature is both urgent and pressing. In fact, the total water potential in the country is more than adequate to irrigate the whole areas under cultivation. However, the present problem is one of discovering cheap and easy methods of utilising these vast supplies of water.

**(e) Inadequate use of efficient farm equipment:**
The method of cultivation in most areas of India are still primitive. Most farmers continue to use native plough and other accessories. However, the problem is not one of shortage of modern machinery. The real problem is that the units of cultivation are too small to permit the use of such machinery.

**(ii) Agricultural Marketing:**

One of the major causes of low income of the Indian farmers is the difficulty in marketing their crops. Due to the small size and scattered nature of agricultural holdings, the productivity per acre is low. Consequently, the collection of these surpluses for the purpose of marketing presents a serious problem.

Agricultural marketing problems arose due to the lack of communications, i.e., connecting the producing centres with the urban areas which are the main centres of consumption. The difficulty of communication prevents the farmer from marketing his own produce. So he has to rely on a number of middlemen (intermediaries) for the disposal of “his crops at cheap prices.

**(iii) Agricultural Credit:**

The typical Indian farmer is almost always in debt. The farmer is a perennial debtor.

Once the farmer falls, into debt due to crop failure or low prices of crops or malpractices of moneylenders he can never come out of it. In fact, a large part of the liabilities of farmers is ‘ancestral debt’. Thus, along with his landed property, he passes on his debt to his successors.

**There are four main causes of rural indebtedness:**
(a) Low earning power of the borrower

(b) Use of loan for unproductive purposes

(c) The excessively high rate of interest charged by the moneylenders

(d) The manipulation of accounts by the lenders

**(iv) Agricultural Prices:**

In or4er to increase food production, it is necessary to ensure that prices of Food-grains set by the Government from time to time give sufficient incentive to farmers so that they can earn reasonable incomes. In India, bumper crop leads to fall in revenue of farmers.

# Next topic:

# Land Reforms

# Meaning:

The term “Land reforms” is often used in discussing the various changes made in the cultivator’s relation to a land in a land tenure system.

Derived from the Latin word “teneo”, the word tenure means “to hold”. Land tenure is therefore used to refer to the conditions under which land is held.

It therefore describes the arrangements by which farmers or others hold or control land and the condition of its use and occupancy. Land constitutes the concurrent list of the constitution of India. It is within the state power to legislate for land reforms. Each state in the country has its own agenda of land reforms.

## Objectives of Land Reforms:

**Land reforms in India have been under taken with many objectives.**

1. To bring about institutional changes in the agrarian structure.

2. To abolish the intermediaries.

3. To ensure social justice by distributing the surplus lands undertaken from the intermediaries.

4. To prevent the exploitation of the tenants by the landlords.

5. To ensure rational or scientific use of the limited agricultural lands through ceiling on land holdings, consolidation of land holdings and creation of economic land holdings.

**Causes of Failure of Land Reforms in India:**

There are so many causes for the poor performance of land reforms programmes in India.

1. Lack of political will.

2. Unorganized, Inarticulate and passive nature of agricultural workers.

3. Apathetic attitude of the bureaucracy.

4. Absence of up-to-date land records.

5. Legal hurdles in the way of implementation of land reforms.

6. Transfer of lands to family members.

7. Lack of uniformity in Land Reform Laws.

8. Limits for retention of land for personal cultivation.

9. Role of the corrupt, Inefficient, ineffective administrative machinery.

10. Lack of social consciousness among the tenants.

11. Emergence of new agricultural technology.

# ***Measures of Land Reforms:***

**The comprehensive land reform policy that evolved so far after independence consisted of:**

i. Abolition of intermediaries between the State and tenants;

ii. Tenancy reforms that provide (a) security to tenants, (b) rationalisation and regulation of rent, and (c) conferment of ownership rights on tenants;

iii. Fixation of ceiling on landholdings;

iv. Consolidation of holdings; and

**(i) Abolition of intermediaries:**
Abolition of zamindari and similar intermediary tenures during 1950-55 essentially involved removal of intermediary levels or layers of various amorphous and parasitic groups in land between the State and the actual cultivators. However, such abolition of intermediaries involved compensation to the owners of land.

As a result of this measure, about 2.5 crore farmers were brought into direct relationship with the State. This facilitated distribution of 61 lakh hectares of land to landless farmers. Large areas of privately-owned forests and wasteland now vested in the State.

Despite abolition of intermediary rights, poor peasantry continued to be exploited in various ways. It led to large-scale ejectment of poor tenants from land. While landlordism has been abolished, absentee landlordism now continues to flourish. The legislation conferred ownership rights not upon the actual cultivator, but on the statutory tenant, who himself was an intermediary with a chain of sub-tenants under him.

**(ii) Tenancy Reforms:**
**Tenancy legislations have taken three forms:**
(i) Regulation of rent,

(ii) Providing security of tenure, and

(iii) Conferring rights of ownership for tenants.

Rent payable to the landowners should not exceed one-fifth to one-fourth of the gross produce of land. In the light of this guideline, all the states have enacted laws for fixation of rent. However, large inter-state variations exist in the fixation of land rent rates. Further, one notices inter-state differences in land rents.

**(iii) Ceiling on Landholdings:**

To reduce the existing disparities in the pattern of land-ownership and make some land available for distribution to landless agricultural workers, the Second Plan (1956-1961) recommended the imposition of ceilings on agricultural holdings.

It was envisaged that land above a certain limit would be acquired by the State and redistributed among the landless workers and small farmers so as to meet their hunger for land and, thus, to enable them to create economic holdings.

**(iv) Consolidation of Landholdings:**
Fragmented and subdivided landholdings as well as small-sized holdings have made Indian agriculture un-remunerative. So consolidation of these lands is necessary to boost efficiency and economy in India’s agriculture. It has been completed in the states of Punjab, Haryana and Uttar Pradesh.

Till December 2001, nearly, 163.3 lakh acres of land or 1 /3rd of the total cultivated area have been consolidated.

# ***Impact of the Land Reform Policy:***

Land reforms are being attempted for twofold reason: to improve production and productivity and the distribution of income/asset. Land reform measures are costless methods of increasing production in the agricultural sector. It serves the purpose of social justice too. Let us see how far land reform measures have improved productive efficiency of the agricultural sector and ensured social justice.

**i. On productive Efficiency:**
So far as productive efficiency is concerned, the land reform measures adopted in recent years have not made any significant impact. The probable reason is that the reforms have not been effectively implemented.

The ownership of land has not yet been fully transferred to the tillers. The actual rents still rule high. The consolidation of holdings has not been completed. Cooperative farming has not made much headway. In the- absence of economical holding being in actual possession of the tiller, in which he has a permanent interest, the modern techniques cannot be applied to land. Naturally, productivity continues to be low.

**ii. On Social Justice:**
The objective of social justice has, however, been achieved to a considerable degree. The intermediary rights have been abolished. India no longer presents a picture of feudalism at the top and serfdom at the bottom. The tenancy laws have given the tillers protection from exploitation by providing them security of tenure and fixing maximum chargeable rents.

It is true that the pace of implementation of land reform measures has been slow. Moreover, there is a marked unevenness in respect of progress in various states. This does not, however, mean that there has been no achievement at all in the sphere of land reform since independence.

But the progress has been slow and it needs to be accelerated. The manifold problems of our land are to be solved through the introduction of a suitable land policy.

# Next topic:

## Green Revolution

The introduction of high-yielding varieties of Indian seeds after 1965 and the increased use of fertilizers and irrigation are known collectively as the Indian Green Revolution.

It provided the Increase in production needed to make India self-sufficient in food grains.

### Factors Contributing to Green Revolution in India

***1. Adoption of high-yielding varieties of seeds:***

The use of high-yielding varieties of seeds since 1966 has resulted in substantial increase in food grain production. The cause of breakthrough in the production of wheat and rice has been attributed to magic seeds and certified seeds adopted by the agriculturistsThe role of National Seeds Corporation, State Seeds Corporation and Agricultural Universities in distributing these seeds to the farmers, indeed, has been commendable.

***2. Supply of chemical fertilizers:***

Besides high-yielding varieties of seeds, chemical fertilizer is the other input which is responsible for making the green revolution a signal success. In fact, the latest agricultural technology is referred to as the seed and fertilizer technology.

The demand for fertilizers has been increasing after green revolution. The total amount of fertilizers used in 1960-61 was 292 thousand tonnes (nutrients). In 2001- 02, the total consumption of fertilizers was 17400 thousand tonnes (nutrients).

***3. Expansion of irrigation facilities:***

The role of irrigation facilities in bringing about the green revolution cannot be gainsaid. Sir Charles Trevelgan rightly observed, "Irrigation is everything in India. Water is more valuable than land, because when water is applied to land it increases its productiveness at least six-fold and renders great extent of land productive, which otherwise, would produce nothing or next to nothing."
Extension of irrigation facilities in the form of major and medium projects, minor irrigation projects like wells and tube wells has led to the adoption of multiple cropping pattern, introduction of modern farm technology and protection of the crops from drought. All these factors result in spectacular increase in agricultural production. Further, many economists consider irrigation as an important factor for providing employment opportunities to the ruralites."

***4. Use of machinery:***

Economists like Bergmann hold the view that despite its adverse effect on overall employment, the role of machinery in accelerating the growth of green revolution is, indeed, great. The use of modern agricultural tools and implements like tractors, harvestors, threshers, pump sets sprayers etc. has led to progressive agriculture. As a consequence of the use of machinery, there has been substantial increase in the area under assured irrigation, multiple cropping and increase in agricultural productivity.

***5. Provision of agricultural credit:***

Credit is another necessary input to increase agricultural productivity. Co-operative credit institutions such as Primary Co-operative Societies, Central Co-operative Banks and State Co-operative Banks for short- term credit and Land Development Banks for long-term credit have been set up throughout the country in quite large numbers. Besides this, Regional Rural Banks, commercial banks like State Bank of India and National Bank for Agriculture and Rural Development have also helped the farmers to grow more output.

***6. Soil conservation:***

Soil conservation is another significant cause of green revolution. Various soil conservation schemes have led to the conservation of soil fertility and thereby contributed to increased output.

***7. Development of infrastructure:***

Green revolution in the Indian context has attained considerable success. It is mostly because infrastructural facilities in the form of transport and communication, regulated markets, storage and warehousing, agricultural education and training etc. have enabled the farmers to take recourse to the modern art of cultivation.

***8. Multiple cropping programmes****:*

The multiple cropping programmes aims at increasing the cropping intensity of land. Further, it is instrumental in increasing agricultural production.

***9. Incentive prices****:*

The incentive price policy of the government has induced the agriculturists to grow more. Besides fixing remunerative prices for agricultural crops, the government has also been subsiding the purchase of various agricultural inputs used by the farmers.

***10. Land reforms:***

The adoption of land reform measures in the form of abolition of intermediaries, security of tenure, consolidation of holdings, ownership right on the tenants, regulation of rent, ceiling on land holdings and co-operative farming goes a long way in increasing agricultural productivity.

***11. Development programmes for small and marginal farmers****:*

So far as District Rural Development Agency is concerned, special attention has been given to the problems of small and marginal farmers. They are being provided with loans at subsidised rates. As a result they can adopt NAT without any difficulty.

# Impact of Green Revolution:

Introduction of new agricultural strategy or green revolution has created huge impact on the economy of the country.

**These are discussed below:**

 

***(i) Increase in Agricultural Production:***
Due to the adoption of new agricultural strategy the volume of agricultural production and productivity has recorded manifold increase. The production of wheat, rice, maize and potatoes has increased substantially. Total production of foodgrains in India increased from 81.0 million tonnes (annual average) during the Third Plan to 264.8 million tonnes in 2013-2014.

This has become possible due to the introduction of Special Foodgrains Production Programme (SFPP) and the Special Rice Production Programme (SRPP).

***(ii) Increasing Employment Opportunities:***
The introduction of new agricultural strategy has led to considerable expansion of agricultural employment. Due to the introduction of multiple cropping, job opportunities in the rural areas has also expanded as the demand for hired workers required for farm activities increased simultaneously.

***(iii) Strengthening the Forward and Backward Linkages:***
Although traditional linkages between agriculture and industry were existing since a long back, but green revolution has strengthened the linkages. Strong forward linkage of agriculture with industry was noticed even in the traditional agriculture as agriculture supplied various inputs to industries.

But the backward linkage of agriculture to industry, i.e., in the form of agriculture using finished products of industry, was very weak. But introduction of modern technology to agriculture has raised a huge demand for agricultural inputs now produced and supplied by industries.

Thus, modernisation of agriculture and development of agro-based industries has strengthened both forward and the backward linkages between agriculture and the industry.

***(iv) Increase in Regional Disparities:***
Introduction of new technology in agriculture has widened the regional disparities as only some regions well endowed with resources and irrigation potential have benefitted most from the introduction of modern technology.

The coverage of green revolution has been raised from a mere 1.89 million hectares in 1966-67 to only 71.3 million hectares in 1994-95 which accounts to nearly 42 per cent of gross cropped area of the country.

***(v) Inter-Personal Inequalities:***

Green revolution has created some impact on inter-personal inequalities. But economists; are divided on this issue. Some micro level studies reveal that inter-personal inequalities have enlarged but some other studies show that the degree of inter-personal inequalities have either narrowed down or remained neutral.

The studies conducted by Francine R. Frankel, G.R. Saini and Pranab Bardhan revealed that the large farmers are benefitted most from the green revolution but other studies made by J.R. Westley, Usha Nagpal and George Blyn showed that the inequalities have narrowed down as small farmers are also benefitted considerably from green revolution.

***(vi) No response from Small and Marginal Farmers:***

Small and marginal farmers in India could not be able to adopt new strategy due to their poor financial condition and poor creditworthiness. Majority of rural household having small size of land or no land has derived negligible benefit from this new technology.

***(vii) Market Oriented:***

Introduction of new technology in agriculture has transformed the farmers market oriented. Indian farmers are mostly depending on market for getting their inputs as well as for selling their output. Moreover, farmers are also depending much on institutional credit available in the market to meet cost of adoption of new technology.

***(viii) Change in Attitudes:***

Green revolution has contributed favourably to change the attitudes of farmers in India. Agricultural operation has enhanced its status from subsistence activity to commercial farming due to the adoption of new strategy.

***(ix) Unwanted Social Consequences:***

Green revolution has also raised certain unwanted social consequences. Various socio-economic studies have confirmed these consequences. Green revolution paves the way for transforming a large number of tenants and share-croppers into agricultural labourers due to large-scale eviction of tenants by large farmers as they find large-scale farming is highly profitable.

# Weaknesses of Green Revolution:

**Following are some of basic weaknesses of new agricultural strategy:**

(a) Adoption of new agricultural strategy through IADP and HYVP led to the growth of capitalist farming in Indian agriculture as the adoption of these programmes were very much restricted among the big farmers, necessitating a heavy amount of investment.

(b) The new agricultural strategy failed to recognise the need for institutional reforms in Indian agriculture.

(c) Green revolution widened the disparity in income among the rural population.

(d) New agricultural strategy alongwith increased mechanisation of agriculture created a problem of labour displacement.

(e) Green revolution widened the inter-regional disparities in farm production and income.

(f) Green revolution has led to some undesirable social consequences arising from incapacitation due to accidents and acute poisoning from the use of pesticides.

# Next topic:

## Agricultural Policy of India

Agricultural policy of a country is mostly designed by the Government for raising agricultural production and productivity and also for raising the level of income and standard of living of farmers within a definite time frame. This policy is formulated for all round and comprehensive development of the agricultural sector.

In India, the main objectives of agricultural policy are to remove the major problems of agricultural sector related to improper and inefficient uses of natural resources, predominance of low-value agriculture, poor cost-benefit ratio of the sectoral activities and insignificant progress of cooperative farming and other self-help institutions.

# Main Objectives:

**The following are some of the important objectives of India's agricultural policy:**

***(i) Raising the Productivity of Inputs:***

One of the important objectives of India's agricultural policy is to improve the productivity of inputs so purchased viz., HYV seeds, fertilizers, pesticides, irrigation projects etc.

***(ii) Raising Value-Added per Hectare:***

Another important objective of country's agricultural policy is to increase per hectare value-added rather than raising physical output by raising the productivity of agriculture in general and productivity of small and marginal holdings in particular.

***(iii) Protecting the Interest of Poor Farmers:***

One of the important objectives of agricultural policy is to protect the interest of poor and marginal farmers by abolishing intermediaries through land reforms expanding institutional credit support to poor farmers etc.

***(iv) Modernizing Agricultural Sector:***

Modernizing agricultural sector is another important objective of agricultural policy of the country. Here the policy support includes introduction of modern technology in agricultural operations and application of improved agricultural inputs like HYV seeds, fertilizers etc.

***(v) Checking Environmental Degradation:***

Agricultural policy of India has set another objective to check environmental degradation of natural base of Indian agriculture.

***(vi) Agricultural Research and Training:***

Another important objective of Indian agricultural policy is to promote agricultural research and training facilities and to percolate the fruits of such research among the farmers by establishing a close linkage between research institutions and farmers.

***(vii) Removing Bureaucratic Obstacles:***

The policy has set another objective to remove bureaucratic obstacles on the farmers Co-operative societies and self help institutions so that they can work independently.

# National Agricultural Policy Document, 2000:

On 28th July, 2000, the NDA Government made public a National Agriculture Policy envisaging over 4 per cent annual growth through efficient use of resources and technology and increased private investment while emphasizing on price protection to farmers in the WTO regime.

The policy aimed at catapulting agricultural growth to over 4 per cent per annum by 2005. This growth is to be achieved through a combination of measures including structural, institutional, agronomic, environmental, economical and tax reforms.

 

The policy formulation has been necessitated due to the relatively poor growth of agriculture experienced during the 1990s. The Policy Document observed, "Capital inadequacy, lack of infrastructural support and demand side constraints such as controls on movement, storage and sale of agricultural products etc. have continued to affect the economic activity of agricultural sector. Consequently, growth has also tended to slacken during the 1990s".

As the agricultural sector ensures the food security and nutrition to this huge size of population of India and also supplies huge quantity of raw materials for expanding industrial base along with creating surplus for exports thus a fast and equitable reward system for the farming community along with attaining faster growth rate of the sector should be the important components of agricultural reforms.

**Thus, the National Agricultural Policy (2000) has taken the following important objectives:**

1. Attaining a growth rate above 4.0 per cent per annum in the agricultural sector;

2. Attaining a growth which is based on efficient use of resources and also makes provision for conservation of our soil, water and bio-diversity;

3. Attainment of growth with equity, i.e., attaining a growth whose impact would be widespread across regions and different classes of farmers;

4. Attaining a growth that is demand-driven and cater to the need of domestic markets and ensuring maximization of benefit from exports of agricultural products in the face of challenges from economic liberalization and globalization;

5. Attaining a growth that is sustainable technologically, environmentally and economically.

***<u>Sustainability in Agriculture:</u>***

The new policy seeks to introduce economically viable, technically sound, environmentally non-degrading and non-hazardous and socially acceptable use of natural resources of the country for promoting the concept of sustainable agriculture.

**In order to fulfill this strategy, the following measures are suggested in the new policy:**

1. To use unutilized barren wastelands for agriculture and afforestation.

2. To contain biotic pressures on land and to control indiscriminate division of agricultural lands for non-agricultural uses.

3. To enhance cropping intensity through multi-cropping and inter-cropping.

4. To emphasize rational use of ground and surface water so that over-exploitation of ground water resources can be checked. To adopt better technologies such as drip and sprinkler irrigation system so as to arrange more economic and efficient use of water.

5. To adopt vigorously a long-term perspective plan for sustainable rain-fed agriculture by adopting watershed approach and water harvesting method for development of two-thirds of cropped area of the country which is dependent on rainfall.

6. Involvement of farmers and landless labourers will be sought in the development of pastures/ forestry programmes on huge public wasteland by providing adequate financial incentives and entitlement of trees and pastures.

***Food and Nutritional Security:***

In order to meet the growing pressure of population growth and to provide food and nutritional security to such a large population, special efforts will be made for raising the productivity and production of crops and thereby to meet the requirement of raw materials of expanding agro-based industries. Special stress will be made for the development of new crop varieties, especially food crops, with higher nutritional value.

The policy has paid due emphasis for the development of rain-fed irrigation, horticulture, floriculture, roots and tubers plantation crops, aromatic and medicinal plants, bee-keeping and sericulture for augmenting food supply and boosting exports along with generation of employment in rural areas.

High priority has also been given on the development of animal husbandry, dairy, poultry and aquaculture so as to diversify agriculture, increasing animal protein availability in food basket and also for generating exportable surpluses.

The policy also encouraged the cultivation of fodder crops and fodder trees so as to meet the growing need for feed and fodder requirements. The policy has encouraged the involvement of co-operatives and the private sector for the promotion and development of animal husbandry, dairy and poultry farming.

***Development and Transfer of Technology:***

The policy suggested that the Government should encourage application of biotechnology, remote sensing technologies, energy saving technologies, pre- and post-harvest technologies, and technology for environmental protection. Moreover, the Government will make a fresh attempt to move towards a regime financial sustainability of extension services in a pleased manner. The Government will also undertake special measures for empowering women and also to build their capabilities for improving their access to inputs, technology process and other farming resources.

***Incentives and Investment in Agriculture:***

The policy suggested that the Government should make adequate efforts for improving the terms of trade for agriculture along with associated manufacturing sector. Accordingly, attempts will be made to review and rationalize the structure of taxes on food grains, other commercial crops and also excise duty on farm machinery and implements. The Government has committed to keep agriculture outside purview of taxes and decided to continue the present regime of agricultural subsidies.

The, new policy statement accepted the problem of fall in public sector investment in agricultural sector and decided to step up public investment for narrowing regional imbalances and also for accelerating development of supportive infrastructure.

In addition to this, private sector investment in agriculture will be encouraged in some sophisticated areas like agricultural research, post-harvest management, marketing and human resource development. Moreover, attempts would be made for setting up agro-processing units in collaboration between the producer co-operatives and the corporate sector.

*Policy on Institutional Structure:*

**The policy gave due emphasis for reforming the Institutional structure where the approach on rural development and land reforms will give stress on the following issues:**

1. Consolidation of holdings throughout the country following the pattern of north western states.

2. Steps for redistribution of ceiling surplus lands and waste-lands among the landless farmers and unemployed persons.

3. Adopting tenancy reforms for recognizing the rights of tenants and sharecroppers.

4. Promotion and development of lease markets for raising the size of holdings by making legal provisions so as to give private land on lease for cultivation and agro-business purposes.

5. Recognizing the rights of women on land.

6. Making provision for updating and improvement of land records through computerization and also by issuing land pass books to all the farmers.

The policy has made arrangement for promotion through contract farming and land leasing arrangements for allowing accelerated technology transfer, capital inflow and assured marketing arrangements for some crops, especially of oilseeds, cotton and horticultural crops.

***Appraisal of the New Agricultural Policy:***

The New Agricultural Policy (2000) has been considered as a balanced one considering the present requirement. The new policy has adopted a coordinated approach for bringing Green Revolution, White Revolution (related to milk and dairy products) and Blue Revolution (related to aqua/fish culture). Therefore, the policy has been termed as a policy of promising Rainbow Revolution.

1. Considering the growing requirement of food for attaining food self-sufficiency and to attain food security for the millions of people of the country the policy has faced a great challenge. To fulfill this requirement attainment of 4 per cent growth rate in agricultural output is a must. But the New Policy has not spelt out any such target in quantitative terms.

2. Secondly, the New Policy has also failed to identify those backward states which are still lagging in utilizing their agricultural potential. Therefore, a balanced approach should be undertaken to remedy these loopholes.

3. Thirdly, the New Policy argued in favour of encouraging private investment in agriculture which would help the big farmers, but the large numbers of small farmers are not going to be supported by such private investment which needs to be promoted by public investment.

4. Fourthly, the New Policy argued in favour of private sector participation through contract farming by land leasing arrangements. But introduction of such a step in a labour-surplus economy is highly questionable.

5. Lastly, there is a lack of co-ordination between the Central and State Governments in implementing various promotional steps for the

development of agricultural sector. Thus, the centre and the states should co-ordinate in implementing various provisions of new policy and should develop a monitoring mechanism to evaluate the implementation of the policy in a most rational manner.

# Next topic:

**MSME & small scale industries**

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

- Enterprises engaged in the manufacture or production, processing or preservation of goods as specified below:

A) A micro enterprise is an enterprise where investment in plant and machinery does not exceed Rs. 25 lakh;

b) A small enterprise is an enterprise where the investment in plant and machinery is more than Rs. 25 lakh but does not exceed Rs. 5 crore;

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

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

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

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

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

# Importance of MSMEs for Indian Economy

- **Employment:** It is the second largest employment generating sector after agriculture. It provides employment to around 120 million persons in India.
- **Contribution to GDP:** With around 36.1 million units throughout the geographical expanse of the country, MSMEs contribute around 6.11% of the manufacturing GDP and 24.63% of the GDP from service activities.
  - MSME ministry has set a target to up its contribution to GDP to 50% by 2025 as India becomes a $5 trillion economy.
- **Exports**: It contributes around 45% of the overall exports from India.
- **Inclusive growth:** MSMEs promote inclusive growth by providing employment opportunities in rural areas especially to people belonging to weaker sections of the society.
  - For example: Khadi and Village industries require low per capita investment and employs a large number of women in rural areas.
- **Financial inclusion:** Small industries and retail businesses in tier-II and tier-III cities create opportunities for people to use banking services and products.
- **Promote innovation:** It provides opportunity for budding entrepreneurs to build creative products boosting business competition and fuels growth.

Thus, Indian MSME sector is the backbone of the national economic structure and acts as a bulwark for Indian economy, providing resilience to ward off global economic shocks and adversities.

## MSME redefined

- The Micro, Small and Medium Enterprises Development (Amendment) Bill, 2018 proposes to reclassify all MSMEs, whether they are manufacturing or service-providing enterprises, on the basis of their annual turnover.

**Classification of enterprises as micro, small and medium enterprises (in Rs)**

| Type of Enterprise | 2006 Act | | 2018 Bill |
|---|---|---|---|
| | Manufacturing | Services | All enterprises |
| | Investment in Plant and Machinery | Investment in Equipment | Annual Turnover |
| Micro | 25 lakh | 10 lakh | 5 crore |
| Small | 25 lakh to 5 crore | 10 lakh to 2 crore | 5 to 75 crore |
| Medium | 5 to 10 crore | 2 to 5 crore | 75 to 250 crore |

- The bill was introduced in the Lok Sabha and further referred to the Standing Committee which tabled its report on 28 December 2018.

## Benefits of proposed reclassification

- The new classification would eliminate the need for frequent inspections which was earlier required to check the investment in plant and machinery.
- It would be a non discriminatory, transparent and objective criterion.

## Factors which led to growth of MSMEs

- **Campaigns** like Skill India, Startup India, Digital India and Make in India aim to provide MSME players with a level playing field and a definitive push towards enhanced productivity.
- **Digitization:** Increasing internet penetration, customer's familiarization with digital payments fuelled by B2C ecommerce players facilitate MSME sector growth.
- Tie-ups with new-age **non-banking finance (FinTech) companies** allowed access to timely collateral free finance to MSMEs.
- **Changing employment patterns:** Younger generation shifting from agriculture towards entrepreneurial activities creating job prospects for others.

## Issues faced by MSMEs and steps taken to improve their condition

| Issues and Challenges | Steps Taken |
|---|---|
| **Access to credit**<br><br>▪ 90% of the MSMEs are dependent on informal sources for funding<br>▪ Lack of sufficient collateral and high working capital needs | ▪ Launch of the **59 minute loan portal** to enable easy access to credit for MSMEs.<br>▪ 2 percent interest subvention for all GST registered MSMEs, on fresh or incremental loans.<br>▪ Trade Receivables e-Discounting System **(TReDS)** to **enable access to credit from banks,** based on their upcoming trade receivables from corporate and other buyers. |
| **Access to Markets**<br><br>▪ Low outreach and non availability of new markets.<br>▪ Lack of skilled manpower and ineffective marketing strategy.<br>▪ Difficult for MSMEs to sell products to government agencies.<br>▪ Competition from MNCs and other big industries. | ▪ Union government announced to launch an e-commerce platform on the lines of **"Amazon and Alibaba"** to sell products from MSMEs and the Khadi and Village Industries Commission.<br>▪ Public sector companies now **compulsorily procure 25%,** instead of 20% of their total purchases, from MSMEs.<br>▪ More than 40,000 MSMEs registered on **Government e-Marketplace (GeM) portal.** It provides transparency in procurement and facilitates MSMEs to directly reach out to the buyers. |
| **Technology Access**<br><br>▪ Limited human resources and weak financial standing.<br>▪ MSMEs, particularly in the unorganised sector, show lower adaptability of new technology and innovation. | ▪ 20 hubs and 100 spokes in the form of tool rooms will be established across the country. This will **facilitate product design** and easy access to latest technology to MSMEs.<br>▪ Financial assistance is provided for implementation of **lean manufacturing techniques** to enhance the manufacturing competitiveness of MSMEs. |

| | |
|---|---|
| **Quality and Export Issues**<br><br>▪ Low quality products impact export competitiveness.<br>▪ Inadequate access to quality raw materials.<br>▪ Use of traditional machines causes low productivity. | ▪ Financial support to MSMEs in ZED(Zero Defect Zero Effect) certification to improve quality of products.<br>▪ Government provides subsidy towards the expenditure incurred by enterprises to obtain the product certification licenses from national and international bodies. |
| **Ease of Doing Business**<br><br>▪ Cumbersome government procedures and rules for establishing new units.<br>▪ Bureaucratic delays in getting clearances.<br>▪ Poor litigation system in the country. | • The return under 8 labour laws and 10 Union regulations must now be filed only once a year.<br>• **Computerised random allotment** for inspector visits to the establishment.<br>• Environmental Clearance under air pollution and water pollution laws, have been **merged into one.** Also, the return will be accepted through self-certification.<br>• For minor violations under the Companies Act, the entrepreneur will no longer have to approach the courts, but can correct them through simple procedures. This signifies **simplification of government procedures** and instilling confidence among entrepreneurs. |

## Government schemes to promote MSMEs

- ***Udyami Mitra Portal*** **:** launched by SIDBI to improve accessibility of credit and handholding services to MSMEs.
- ***MSME Sambandh*** **:** To monitor the implementation of the public procurement from MSMEs by Central Public Sector Enterprises.
- ***MSME Samadhaan*** -MSME Delayed Payment Portal — will empower Micro and Small entrepreneurs across the country to directly register their cases relating to delayed payments by Central Ministries/Departments/CPSEs/State Governments.

- ***Digital MSME Scheme*** **:** It involves usage of Cloud Computing where MSMEs use the internet to access common as well as tailor-made IT infrastructure
- ***Prime Minister Employment Generation Programme*** : It is a credit linked subsidy program under Ministry of MSME.
- ***Revamped Scheme of Fund for Regeneration Of Traditional Industries (SFURTI)*** : organizes traditional industries and artisans into clusters and make them competitive by enhancing their marketability & equipping them with improved skills.
- ***A Scheme for Promoting Innovation, Rural Industry & Entrepreneurship (ASPIRE)*** : creates new jobs & reduce unemployment, promotes entrepreneurship culture, facilitates innovative business solution etc.
- ***National Manufacturing Competitiveness Programme (NMCP)*** : to develop global competitiveness among Indian MSMEs by improving their processes, designs, technology and market access.
- ***Micro & Small Enterprises Cluster Development Programme (MSE-CDP)*** - adopts cluster development approach for enhancing the productivity and competitiveness as well as capacity building of MSEs.
- ***Credit Linked Capital Subsidy Scheme (CLCSS***) is operational for upgradation of technology for MSMEs.

**<u>Other recent initiatives to promote MSMEs</u>**

- In June 2019, **RBI committee** headed by former **SEBI Chairman UK Sinha** suggested a **Rs 5,000 crore stressed asset fund** for the MSME sector to provide relief to small businesses hurt by **demonetisation, GST,** and an ongoing **liquidity crisis.**

    - It has also recommended doubling **the cap on collateral-free loans to Rs 20 lakh** from the current Rs 10 lakh extended to borrowers falling under the Mudra scheme, self-help groups, and MSMEs.
- MSME Ministry announced in June 2019 to lift the ban on entry of **corporates and private players** in the MSME sector to pave way for the formation of **700 clusters** to reduce dependence on imports as well as for job creation.

- MSME Ministry is also planning to set up **enterprise facilitation centres** across the country to make smaller businesses more competitive and help them integrate with big enterprises.

Therefore, the government should continue to put concerted efforts for holistic development of MSMEs in key areas like **human capacity development, knowledge services, access to finance, technology, infrastructure, market access, and ease of doing business.**

## International Experiences

- According to World Bank, formal SMEs contribute up to 60% of total employment and up to 40% of national income (GDP) in emerging economies.
- 600 million jobs will be needed in the next 15 years to absorb the growing global workforce, mainly in Asia and Sub-Saharan Africa. In emerging markets, most formal jobs are generated by SMEs, which also create 4 out of 5 new positions.
- However, access to credit remains a major problem to the MSME sector globally.

# Next topic:

## Small-Scale Industries in India

In Indian economy small-scale and cottage industries occupy an important place, because of their employment potential and their contribution to total industrial output and exports.

Government of India has taken a number of steps to promote them. However, with the recent measures, small-scale and cottage industries facing both internal competition as well as external competition.

There is no clear distinction between small-scale and cottage industries. However it is generally believed that cottage industry is one which is carried on wholly or primarily with the help of the members of the family. As against this, small-scale industry employs hired labour.

Moreover industries are generally associated with agriculture and provide subsidiary employment in rural areas. As against this, small scale units are mainly located in urban areas as separate establishments.

## ***Definition:***

## The official definitions of a small scale unit are as follows:

**(i) Small-Scale Industries:**

These are the industrial undertakings having fixed investment in plant and machinery, whether held on ownership basis or lease basis or hire purchase basis not exceeding Rs. 1 crore.

**(ii) Ancillary Industries:**

These are industrial undertakings having fixed investment in plant and machinery not exceeding Rs. 1 crore engaged in or proposed to engage in,

(a) The manufacture of parts, components, sub-assemblies, tooling or intermediaries, or

(b) The rendering of services supplying 30 percent of their production or services as the case may be, to other units for production of other articles.

**(iii) Tiny Units:**

These refer to undertakings having fixed investment in plant and machinery not exceeding Rs. 23 lakhs. These also include undertakings providing services such as laundry, Xeroxing, repairs and maintenance of customer equipment and machinery, hatching and poultry etc. Located m towns with population less than 50,000.

**(iv) Small-Scale Service Establishments:**

These mean enterprises engaged in personal or household services in rural areas and town with population not exceeding 50000 and having fixed investment in plant and machinery not exceeding Rs. 25 lakhs.

**(v) Household Industries:**

These cover artisans skilled craftsman and technicians who can work in their own houses if their work requires less than 300 square feet space, less than 1 Kw power, less than 5 workers and no pollution is caused. Handicrafts, toys, dolls, small plastic and paper products electronic and electrical gadgets are some examples of these industries.

# ***Characteristics of Small-Scale Industries:***

**(i) Ownership:**

Ownership of small scale unit is with one individual in sole-proprietorship or it can be with a few individuals in partnership.

**(ii) Management and control:**

A small-scale unit is normally a one man show and even in case of partnership the activities are mainly carried out by the active partner and the rest are generally sleeping partners. These units are managed in a personalised fashion. The owner is activity involved in all the decisions concerning business.

**(iii) Area of operation:**

The area of operation of small units is generally localised catering to the local or regional demand. The overall resources at the disposal of small scale units are limited and as a result of this, it is forced to confine its activities to the local level.

**(iv) Technology:**

Small industries are fairly labour intensive with comparatively smaller capital investment than the larger units. Therefore, these units are more suited for economics where capital is scarce and there is abundant supply of labour.

**(v) Gestation period:**

Gestation period is that period after which teething problems are over and return on investment starts. Gestation period of small scale unit is less as compared to large scale unit.

**(vi) Flexibility:**

Small scale units as compared to large scale units are more change susceptible and highly reactive and responsive to socio-economic conditions.

They are more flexible to adopt changes like new method of production, introduction of new products etc.

**(vii) Resources:**

Small scale units use local or indigenous resources and as such can be located anywhere subject to the availability of these resources like labour and raw materials.

**(viii) Dispersal of units:**

Small scale units use local resources and can be dispersed over a wide territory. The development of small scale units in rural and backward areas promotes more balanced regional development and can prevent the influx of job seekers from rural areas to cities.

# ***Objectives of Small Scale Industries:***

The objectives of small scale industries are:

1. To create more employment opportunities with less investment.

2. To remove economic backwardness of rural and less developed regions of the economy.

3. To reduce regional imbalances.

4. To mobilise and ensure optimum utilisation of unexploited resources of the country.

5. To improve standard of living of people.

6. To ensure equitable distribution of income and wealth.

7. To solve unemployment problem.

8. To attain self-reliance.

9. To adopt latest technology aimed at producing better quality products at lower costs.

# Role and Performance of Small-Scale and Cottage Industries of India

We can discuss the role and performance of small-scale and cottage industries under the following headings:

1. Expansion of small-scale sector and its share in industrial output.

2. Employment generation.

3. Relative efficiency as compared with large-scale sector.

4. Equitable distribution of national income.

5. Mobilisation of capital and entrepreneurial skills.

6. Regional dispersal of industries.

7. Less industrial disputes.

8. Contribution to export earnings.

***(1) Expansion of Small-Scale Sector and Contribution to Industrial Output:***

As is clear from the discussion above, the definition of small-scale undertakings has changed over time. Therefore, study of the expansion of small-scale sector over a long period of time is not possible. However, a study of the data contained in Economic Survey 2001-02 gives the following results for the period 1993-94 to 2000- 01.

(a) The number of small-scale units stood at 23.9 lakh in 1993-94 and this rose to 33.7 lakh in 2000-01. This shows that during the period eight years, the number of industrial units rose by as much as 41 percent.

(b) The output of small-scale units was Rs. 2, 41,648 crore in 1993-94 and this rose to Rs. 4, 50,450 crore in 2000-01 (at 1993-94 prices). This shows that the output of the small-scale industries increased by as much as 86.4 percent over the period 1993-94 to 2001-02.

***(2) Relative Efficiency as Compared with Large-Scale Sector:***

(i) Whether large-scale industries are more efficient or small-scale industries are more efficient, is a matter of debate. The problem arises because of the fact that efficiency can be defined in many different ways. The study on this issue was conducted by SIDBI (Small Industries Development Bank of India) Team in 1999 in association with NCAER (National Council of Applied Economic Research).

The study covers the period 1980-1994. The study reveals that the small-scale industries, by investing only 7 percent to 15 percent of the total manufacturing sector’s capital, contribute to nearly one-fifth of industrial output and 35 to 40 percent of total employment in the industrial sector.

Moreover, both labour productivity and capital productivity in small-scale sector grew at a faster rate than large-scale sector during 1980-94. Thus, the small-scale sector has proved to be more efficient.

***(3) Employment Generations:***

The small-scale units employed 129.80 lakh people in 1991-92 and this number has consistently risen to 185.6 lakh people in 2000-01. Given the acute problem of unemployment in India, creation of employment opportunities depend crucially on the development of small-scale and cottage industries.

There is already surplus labour in agriculture while the large-scale industrial sector, being capital-intensive in nature, has limited employment opportunities. In fact, the employment argument is the strongest argument that can be put forward in favour of small-scale and cottage, industries in India.

***(4) Equitable Distribution of National Income:***

The main arguments put forward in support of the small-scale and cottage industries is that they ensure a more equitable distribution of national income and wealth. This happens because of the following two considerations:

(a) The ownership of small-scale industries is more widespread than the ownership of large- scale industries, and

(b) They possess a much larger employment potential as compared to the large industries.

***(5) Regional Dispersal of Industries:***

There has been massive concentration of large-scale industries in the states of Maharashtra, West Bengal, Gujarat and Tamil Nadu. As a result, disparity in industrial development have increased. Even within these industrialized states, industries have tended to get concentrated in a few large cities like Mumbai and Chennai.

People migrate in large numbers from villages and lower order urban centres to these centres of industrial development. This swells the population of slums and create various social and personal problems. The whole urban environment gets polluted.

As against this, the small-scale industries are ostly set up to satisfy local demand and they can be dispersed overall the state very easily. They can also effect a qualitative change in the economy of a state. The most glaring example of this phenomenon is the economy of Punjab which has more small- scale industrial units than even the industrially developed state of Maharashtra.

***(6) Mobilisation of Capital and Entrepreneurial Skill:***

Small-scale industries are at a distinct advantage as far as mobilisation of capital and entrepreneurial skill is concerned. A number of entrepreneurs are spread over small towns and village industries are distributed over the entire length and breadth of the country.

Similarly, large-scale industries cannot mobilise the savings done by people in areas far flung from the urban centres. But this task can be effectively accomplished by getting up a network of small-scale and cottage industries. In addition, a large number of other resources spread over the country can be put to an effective use by the small-scale and cottage industries.

The rapid development of small-scale industries in the post-Independence period is a proof that given the necessary credit, power and technical knowledge a large quantity of latent resources of the economy can be mobilised for purposes of industrial development.

***(7) Less Industrial Disputes:***

A number of supporter of small-scale and cottage industries have argued that as compared with large-scale units, these industries have less industrial disputes.

While these are frequent strikes and lock-outs in large industries, small-scale and cottage industries do not face such problem.

Therefore, there is no loss of output in small-scale and cottage industries. However, this point of view is not totally correct. The fact is that workers in large scale units are organised and thus the strikes are well reported in media.

As against this workers in small scale units are unorganised and cannot resort to strike. Any worker who shows his resentment is immediately thrown out. Therefore, while in a small-scale unit relations between the employer and employees appear to be normal on the surface but in fact they may be not.

In the case of cottage industries, the question of dispute does not arise at all since the main form of labour in these industries is family labour.

***(8) Contribution to Exports***:

With the establishment of a large number of modem small-scale industries in the post-independence period, the contribution of the small-scale sector in export earnings has increased by leaps and bounds.

What is heartening to observe is that the bulk of the exports of the small-scale industries (in fact, around 93 percent) consists of such non-traditional items like readymade garments sports-goods, finished leather, leather products, woollen garments and knitwear, processed foods, chemicals and allied products, and a large number of engineering; goods.

The total export of the small-sector industry products increased from Rs. 150 crore during 1971-72 to Rs. 48,979 crore in 1998-99. This implies, an increase in the share of small-scale industries in the total exports of the country from 9.6 percent in 1971-72 to 34.9 percent in 1998-99. The share of the small-scale sector in manufacturing exports is about 45 percent. Exports of the small scale sector are estimated at $ 13 billion in 2000-01 which was about 30 percent of total exports in that year.

# Major Problems faced by the Small Scale Industries of India

This sector can stimulate economic activity and is entrusted with the responsibility of realising various objectives generation of more employment opportunities with less investment, reducing regional imbalances etc. Small scale industries are not in a position to play their role effectively due to various constraints. The various constraints, the various problems faced by small scale industries are as under:

***(1) Finance:***

Finance is one of the most important problem confronting small scale industries Finance is the life blood of an organisation and no organisation can function proper y in the absence of adequate funds. The scarcity of capital and inadequate availability of credit facilities are the major causes of this problem.

Firstly, adequate funds are not available and secondly, entrepreneurs due to weak economic base, have lower credit worthiness. Neither they are having their own resources nov are others prepared to lend them. Entrepreneurs are forced to borrow money from money lenders at exorbitant rate of interest and this upsets all their calculations.

After nationalisation, banks have started financing this sector. These enterprises are still struggling with the problem of inadequate availability of high cost funds. These enterprises are promoting various social objectives and in order to facilitate then working adequate credit on easier terms and conditions must be provided to them.

***(2) Raw Material:***

Small scale industries normally tap local sources for meeting raw material requirements. These units have to face numerous problems like availability of inadequate quantity, poor quality and even supply of raw material is not on regular basis. All these factors adversely affect t e functioning of these units.

Large scale units, because of more resources, normally corner whatever raw material that is available in the open market. Small scale units are thus forced to purchase the same raw material from the open market at very high prices. It will lead to increase in the cost of production thereby making their functioning unviable.

***(3) Idle Capacity:***

There is under utilisation of installed capacity to the extent of 40 to 50 percent in case of small scale industries. Various causes of this under-utilisation are shortage of raw material problem associated with funds and even availability of power. Small scale units are not fully equipped to overcome all these problems as is the case with the rivals in the large scale sector.

***(4) Technology:***

Small scale entrepreneurs are not fully exposed to the latest technology. Moreover, they lack requisite resources to update or modernise their plant and machinery Due to obsolete methods of production, they are confronted with the problems of less production in inferior quality and that too at higher cost. They are in no position to compete with their better equipped rivals operating modem large scale units.

***(5) Marketing:***

These small scale units are also exposed to marketing problems. They are not in a position to get first hand information about the market i.e. about the competition, taste, liking, disliking of the consumers and prevalent fashion.

With the result they are not in a position to upgrade their products keeping in mind market requirements. They are producing less of inferior quality and that too at higher costs. Therefore, in competition with better equipped large scale units they are placed in a relatively disadvantageous position.

In order to safeguard the interests of small scale enterprises the Government of India has reserved certain items for exclusive production in the small scale sector. Various government agencies like Trade Fair Authority of India, State Trading Corporation and the National Small Industries Corporation are extending helping hand to small scale sector in selling its products both in the domestic and export markets.

***(6) Infrastructure:***

Infrastructure aspects adversely affect the functioning of small scale units. There is inadequate availability of transportation, communication, power and other facilities in the backward areas. Entrepreneurs are faced with the problem of getting power connections and even when they are lucky enough to get these they are exposed to unscheduled long power cuts.

Inadequate and inappropriate transportation and communication network will make the working of various units all the more difficult. All these factors are going to adversely affect the quantity, quality and production schedule of the enterprises operating in these areas. Thus their operations will become uneconomical and unviable.

***(7) Under Utilisation of Capacity:***

Most of the small-scale units are working below full potentials or there is gross underutilization of capacities. Large scale units are working for 24 hours a day i.e. in three shifts of 8 hours each and are thus making best possible use of their machinery and equipments.

On the other hand small scale units are making only 40 to 50 percent use of their installed capacities. Various reasons attributed to this gross under- utilisation of capacities are problems of finance, raw material, power and underdeveloped markets for their products.

***(8) Project Planning:***

Another important problem faced by small scale entrepreneurs is poor project planning. These entrepreneurs do not attach much significance to viability studies i.e. both technical and economical and plunge into entrepreneurial activity out of mere enthusiasm and excitement.

They do not bother to study the demand aspect, marketing problems, and sources of raw materials and even availability of proper infrastructure before starting their enterprises. Project feasibility analysis covering all these aspects in addition to technical and financial viability of the projects, is not at all given due weight-age.

Inexperienced and incomplete documents which invariably results in delays in completing promotional formalities. Small entrepreneurs often submit unrealistic feasibility reports and incompetent entrepreneurs do not fully understand project details.

Moreover, due to limited financial resources they cannot afford to avail services of project consultants. This result is poor project planning and execution. There is both time interests of these small scale enterprises.

***(9) Skilled Manpower:***

A small scale unit located in a remote backward area may not have problem with respect to unskilled workers, but skilled workers are not available there. The reason is Firstly, skilled workers may be reluctant to work in these areas and secondly, the enterprise may not afford to pay the wages and other facilities demanded by these workers.

Besides non-availability entrepreneurs are confronted with various other problems like absenteeism, high labour turnover indiscipline, strike etc. These labour related problems result in lower productivity, deterioration of quality, increase in wastages, and rise in other overhead costs and finally adverse impact on the profitability of these small scale units.

***(10) Managerial:***

Managerial inadequacies pose another serious problem for small scale units. Modern business demands vision, knowledge, skill, aptitude and whole hearted devotion. Competence of the entrepreneur is vital for the success of any venture. An entrepreneur is a pivot around whom the entire enterprise revolves.

Many small scale units have turned sick due to lack of managerial competence on the part of entrepreneurs. An entrepreneur who is required to undergo training and counseling for developing his managerial skills will add to the problems of entrepreneurs.

The small scale entrepreneurs have to encounter numerous problems relating to overdependence on institutional agencies for funds and consultancy services, lack of credit-worthiness, education, training, lower profitability and host of marketing and other problems. The Government of India has initiated various schemes aimed at improving the overall functioning of these units.

# Next topic:

# India's New Industrial Policy 1991

**Major Objectives of India's New Industrial Policy 1991 are as follows**

With the gradual liberalisation of the 1956 Industrial policy in the mid-eighties the tempo of industrial development started picking up. But the industry was still feeling the burden of many controls and regulations.

For a faster growth of industry, it was necessary that even these impediments should be removed. The new government by Shri Narasimha Rao, which took office in June 1991, announced a package of liberalisation measures under its Industrial Policy on July 24, 1991.

# Objectives:

The New Industrial Policy,1991 seeks to liberate the industry from the shackles of licensing system Drastically reduce the role of public sector and encourage foreign participation in India's industrial development. The broad objectives of New Industrial Policy are as follows:

(i) Liberalising the industry from the regulatory devices such as licenses and controls.

(ii) Enhancing support to the small scale sector.

(iii) Increasing competitiveness of industries for the benefit of the common man.

(iv) Ensuring running of public enterprises on business lines and thus cutting their losses.

(v) Providing more incentives for industrialisation of the backward areas, and

(vi) Ensuring rapid industrial development in a competitive environment.

The New Industrial Policy has made very significant changes in four main areas viz., industrial licensing role of public sector, foreign investment and technology and the MRTP act. The major provisions of this policy are discussed below.

***(1) Abolition of Industrial Licensing:***

In the earlier industrial policy, industries were subjected to tight regulation through the licensing system. Though some liberalisation measures were introduced during 1980's that positively affected the growth of industry. Still industrial development remained constrained to a considerable extent.

The new industrial policy abolishes the system of industrial licensing for most of the industries under this policy no licenses are required for setting up new industrial units or for substantial expansion in the capacity of the existing units, except for a short list of industries relating to country's security and strategic concerns, hazardous industries and industries causing environmental degradation. To begin with, 18 industries were placed in this list of industries that require licenses. Through later amendment to the policy, this list was reduced. It now covers only five industries relating to health security and strategic concerns that require compulsory licensing. Thus the industry has been almost completely made free of the licensing provisions and the constraints attached with it.

***(2) De-reservation of Industries for Public Sector:***

The public sector which was conceived as a vehicle for rapid industrial development, largely failed to do the job assigned to it. Most public sector enterprises became symbols of inefficiency and imposed heavy burden on the government through their perpetual losses.

Since a large field of industry was reserved exclusively for public sector where it remained a virtual non performer (except for a few units like the ONGC). The industrial development was thus the biggest casualty.

The new industrial policy seeks to limit the role of public sector and encourage private sector’s participation over a wider field of industry. With this view, the following changes were made in the policy regarding public sector industries:

**(i) Reduced reservation for public sector:**

Out of the 17 industries reserved for the public sector under the 1956 industrial policy, the new policy de-reserved 9 industries and thus limited the scope of public sector to only 8 industries.

Later, a few more industries were de-reserved and now the exclusive area of the public sector remains confined to only 4 industrial sectors which are: (i) defence production, (ii) atomic energy, (iii) railways and (iv) minerals used in generation of atomic energy.

However, if need be even some of these areas can be opened up for the private sector. The public sector can also be allowed to set up units in areas that have now been thrown open for private sector, if the national interest so demands.

**(ii) Efforts to revive loss making enterprise:**

Those public enterprises which are chronically sick and making persistent losses would be returned to the Board of Industrial and Financial Reconstruction (BIFR) or similar other high level institutions created for this purpose. The BIFR or other such institutions will formulate schemes for rehabilitation and revival of such industrial units.

**(iii) Disinvestment in selected public sector industrial units:**

As a measure to raise large resources and introduce wider private participation in public sector units, the government would sell a part of its share holding of these industries to Mutual Funds, financial institutions, general public and workers.

For this purposes, the Government of India set up a 'Disinvestment Commission' in August 1996 which works out the modalities of disinvestment. On the basis of recommendations of the 'Disinvestment Commission' the government sells the shares of public enterprise.

**(iv) Greater autonomy to public enterprises:**

The New Industrial Policy seeks to give greater autonomy to the public enterprises in their day-to-day working. The trust would be on performance improvement of public enterprises through a mix of greater autonomy and more accountability.

***(3) Liberalised Policy Towards Foreign Capital and Technology:***

The inflow of foreign capital and import of technology was tightly regulated under the earlier Industrial policy. Each proposal of foreign investment was to be cleared by the Government in advance. Wherever foreign investment was allowed, the share of foreign equity was kept very low so that majority of ownership control remains with Indians.

But such a policy kept the inflow of foreign capital very small and industrial development suffered for want of capital resources and technology. The July, 1991 Industrial policy made several concessions to encourage flow of foreign capital and technology into India, which are follows:

**(i) Relaxation in Upper Limit of Foreign Investment:**

The maximum limit of foreign equity participation was placed at 40 per cent in the total equity capital of industrial units which were open to foreign investments under the 1991 policy; this limit was raised to 51 per cent. 34 specified more industries were added to this list of 51 per cent foreign equity participation.

In some industries the ratio of foreign equity was raised to 74 percent. Foreign Direct Investments (FDI) was further liberalised and now 100 per cent foreign equity is permitted the case of mining, including coal and lignite, pollution control related equipment, projects for electricity generation, transmission and distribution, ports, harbours etc.

Recent decision taken to further liberalise FDI include permission for 100 per cent FDI in oil refining, all manufacturing activities in Special Economic Zones (SEZ’s), some activities in telecom see tor etc.

**(ii) Automatic Permission for Foreign Technology Agreement:**

he New Industrial Policy states that automatic permission will be granted to foreign technology agreements in the high priority industries. Previously technology agreement by an Indian company with foreign parties for import of technology required advance clearance from the government.

This delayed the import of technology and hampered modernisation of industries. Now the Indian companies could enter into technology agreements with foreign companies and import foreign technology for which permission would be automatically granted provided the agreements involved a lump sum payment of upto Rs. 1 crore and royalty upto 5 percent on domestic sales and 8 per cent on exports.

***(4) Changes in the MRTP Act:***

According to the Monopolies and Restrictive Trade Practices (MRTP) Act, 1969, all big companies and large business houses (which had assets of Rs. 100 crores or more, according to the 1985 amendment to the Act) were required to obtain clearance from the MRTP Commission for setting up any new industrial unit, because such companies (called MRTP companies) were allowed to invest only in some selected industries.

Thus, besides obtaining a licence they were also required to get MRTP clearance. This was a big impediment for industrial development as the big business firms which had the resources for development could not grow and diversify their activities.

The Industrial Policy, 1991 has put these industries on par with others by abolishing those provisions of the MRTP Act which mediate mandatory for the large industrial houses to seek prior clearance from MRTP Commission for their new projects.

Under the amended Act, the MRTP Commission will concern itself only with the control of Monopolies and Restrictive Trade Practices that are unfair and restrict competition to the detriment of consumer s interests. No prior approval of or clearance from the MRTP Commission is now required for setting up industrial units by the large business houses.

***(5) Greater Support to Small-Scale Industries:***

The New Industrial Policy seeks to provide greater government support to the small-scale industries so that they may grow rapidly under environment of economic efficiency and technological upgradation. A package of measures announced in this context provides for setting up of an agency to ensure that credit needs of these industries are fully met.

It also allows for equity participation by the large industries in the small scale sector not exceeding 24 per cent of their total shareholding. This has been done with a view to provide small scale sector an access to the capital market and to encourage their upgradation and modernisation the government would also encourage the production of parts and components required by the public sector industries in the small-scale sector.

***(6) Other Provisions:***

Besides above discussed measures, the Industrial Policy 1991 announced some more steps to promote rapid industrial development. It said that the government would set up a special board (which was established as Foreign Investments

Promotion Board—FIPB) to negotiate with a number of international companies for direct investment in industries in India.

It also announced the setting up of a fund (called National Renewal Fund) to provide social security to retrenched workers and provide relief and rehabilitate those workers who have been rendered unemployed due to technological changes.

The New Policy also removed the mandatory convertibility clause under which the Public Sector Financial Institution were asked to convert the loans given by them to private industries in equity (shares) and thus become partners in their management.

This removed a big threat to the private sector industries as they were always under threat that their management and control could pass on into the hands of the Government owned financial institutions.

# Evaluation of the New Industrial Policy:

The New Industrial Policy 1991 aims to unshackle Indian's industrial economy from the cobwebs of unnecessary bureaucratic control. According to this policy the rate of the government should change from that of only exercising control over industries to that of helping it to grow rapidly by cutting down delays.

Removal of entry barriers and bringing about transparency in procedures. This policy therefore also at virtually ending the 'Licence-Permit Raj' which has hampered private initiative and industrial development. The new policy therefore throws almost the entire field of industry wide upon for the private sector.

The public sector's role has been confined largely to industries of defence, strategic and environmental concerns. Thus new policy is more market friendly and aims at making the best use of available entrepreneurial talent in a congenial industrial environment. The industry is thus expected to grow faster under the new industrial policy 1991.

# Next topic:

## Public Sectors in India

Prior to 1947, there was virtually no "public sector" in India. The only instances worthy of mention were the Railways, the Posts and Telegraphs, the Port Trusts, the Ordnance and Aircraft Factories and a few state managed undertakings like the Government Salt factories, Quinine factories, etc.

The idea that economic development should be promoted by the State actually managing industrial concerns did not take root in India before 1947, even though the concept of planning was very much discussed by Congress Governments in the Indian provinces as far back as 1931. However, in the post independence period, the expansion of public sector was undertaken as an integral part of the Industrial Policy 1956.

***Central Public Sector Undertakings:***

There were 236 Central public sector undertakings excluding banks in 1996-97. The growth of investment in Central public sector undertakings has also increased. Since 1951, the number of industrial and commercial undertakings of the Central Government has increased from 5 units in 1950-51 to 236 units in 1996-97 and the

Capital investment has increased from Rs. 29 crores to Rs. 2020.2 billion in 1996-97.

***State Governments Public Enterprises:***

As on March 31, 1986, there were 636 State level Public Enterprises (SLPEs) functioning in 24 states. The investment in SLPEs as on March 31, 1986, was of the order of Rs. 10,000 crores as against. Rs. 2,860 crores, as on Mach 31, 1977.

While inclusive of State Electricity Boards and State Road Transport Corporations total investment stood at Rs. 25,000 crores in 1986, as against Rs. 9,576 crore in 1977. The average rate of growth of investment in State level enterprises during 1977-86 period was of the order of 20 percent per annum.

**Organizationally, there are four types of public sector enterprises:**

(1) Departmentally Managed;

(2) Managed by independent boards;

(3) Run as public corporations; and

(4) Organised as Companies. The company form of organisation is the most common.

***Role of Public Sector in India:***

After the attainment of independence and the advent of Planning, there has been a progressive expansion in the scope of the Public Sector. The passage of Industrial Policy Resolution of 1956 and the adoption of the Socialist Pattern of Society as our national goal, further led to deliberate enlargement of the role of public sector.

To understand the role of the Public Sector, we must have an idea about its size in the context of the Indian economy. For a comprehensive view of the entire Public Sector, we should cover besides autonomous corporations, the departmental enterprises.

While doing so, not only the enterprises owned and run by the Central Government be covered but the enterprises run by the State Governments and local bodies should also be included.

Secondly, it would not be appropriate to use any single measure to estimate the size of the public sector; rather it would be desirable to use quite a few indicators, e.g., employment, investment, value of output, national income generated, savings, capital formation and capital stock.

1. ***Share in National Income:***

An important contribution to the National Income is Public Sector. During the period 1960 to 1999, the public sector has doubled its share in the national income in real terms and account for 25 percent of the total income of the economy. This is, undoubtedly, a significant change in the structure of economy in terms of the increased importance of the public sector in domestic activity.

2. ***Share in Capital Formation:***

Another most important contribution of public sector in India has been in respect of capital formation. Investment in the private sector producing goods for rich people mainly should be evaluated lower than similar type of investment in the public sector which is engaged in the provision of essential infrastructural services to the economy as a whole. This is true even though the commercial profitability of the private sector is being rated high.

### 3. *Growth of Ancillary Industries:*

Public Sector enterprises are helping the growth of ancillary industrious in numerous ways. These are as follows:

(1) They take responsibility for providing managerial and technical guidance on production process and equipment selection etc.

(2) Public Sector enterprises give long-term contracts to small ancillary industries.

(3) Public enterprises guide for sources of financing and procedure for obtaining them.

(4) Public enterprises have made efforts to purchase items from ancillary units.

# ***Problems in Public Sector:***

Even though the public sector is going in a correct path, some problems and short comings are there. The main short comings are as follows:

(1) Heavy losses.

(2) Influence of political factors.

(3) Work delays.

(4) Over-capitalisation.

(5) Pricing policy.

(6) Use of Manpower Resources.

(7) Control over employees.

(8) Inefficient Management.

(9) Higher capital intensity leading to lower-employment generation.

(10) Capacity utilisation.

# ***Suggestions to Improve the Performance of Public Sector Enterprises (PSEs):***

(i) Controlling the cost at every level of public sector enterprises.

(ii) Increase the production,

(iii) Reforms in capital base.

(iv) Increase the standard of public sector enterprises to manage the competition from both domestic and foreign competitors.

(v) Identifying redundant manpower and dealing with it through means a retraining, redeployment and encouraging self-employment etc.

## **Roles Played by Public Sector in Indian Economy**

### ***1. Generation of Income:***

Public sector in India has been playing a definite positive role in generating income in the economy. The share of public sector in net domestic product (NDP) at current prices has increased from 7.5 per cent in 1950-51 to 21.7 per cent in 2003-04. Again the share of public sector enterprises only (excluding public administration and defence) in NDP was also increased from 3.5 per cent in 1950-51 to 11.12 per cent in 2005-06.

***2. Capital Formation:***

Public sector has been playing an important role in the gross domestic capital formation of the country. The share of public sector in gross domestic capital formation has increased from 3.5 per cent during the First Plan to 9.2 per cent during the Eighth Plan. The comparative shares of public sector in the gross capital formation of the country also recorded a change from 33.67 per cent during the First Plan to 50 per cent during the, Sixth Plan and then declined to 21.9 per cent in 2005-06.

***3. Employment:***

Public sector is playing an important role in generating employment in the country.

**Public sector employments are of two categories, i.e:**

(a) Public sector employment in government administration, defence and other government services and

(b) Employment in public sector economic enterprises of both Centre, State and Local bodies. In 1971, the public sector offered employment opportunities to about 11 million persons but in 2003 their number rose to 18.6 million showing about 69 per cent increase during this period.

Again in 2003, the public sector offered employment opportunities to 18.6 million persons which was 69 per cent of the total employment generated in the country as compared to 71 per cent employment generated in 1991. However, there is considerable decline in the annual growth rate of employment in the public sector from 1.53 per cent during 1983-1994 to 0.80 per cent during 1994- 2004.

Moreover, about 69.0 per cent of the total employments are generated in the public sector. Moreover, at the end of March 2004, about 51.7 per cent of the total employment (i.e. about 96 lakh) generated in public sector is from Government administration, community, social and personal services and the remaining 48.3 per cent (i.e., nearly 89.7 lakh) of the employment in public sector is generated by economic enterprises run by the Centre, State and Local Governments.

The maximum number of employment is derived from transport, storage and communications (28.1 lakh). The public sector manufacturing is the next industry which generated employment to the extent of 11.1 lakh persons.

***4. Infrastructure:***

Without the development of infrastructural facilities, economic development is impossible. Public sector investment on infrastructure sector like power, transportation, communication, basic and heavy industries, irrigation, education and technical training etc. has paved the way for agricultural and industrial development of the country leading to the overall development of the economy as a whole. Private sector investments are also depending on these infrastructural facilities developed by the public sector of the country.

***5. Strong Industrial base:***

Another important role of the public sector is that it has successfully build the strong industrial base in the country. The industrial base of the economy is now considerably strengthened with the development of public sector industries in various fields like—iron and steel, coal, heavy engineering, heavy electrical machinery, petroleum and natural gas, fertilizers, chemicals, drugs etc.

The development of private sector industries is also solely depending on these industries. Thus by developing a strong industrial base, the public sector has developed a suitable base for rapid industrialization in the country. Moreover, public sector has also been dominating in critical areas such as petroleum products, coal, copper, lead, hydro and steam turbines etc.

***6. Export Promotion and Import Substitution:***

Public sector enterprises have been contributing a lot for the promotion of India's exports. The foreign exchange earning of the public enterprises rose from Rs. 35 crore in 1965-66 to Rs. 5,831 crore in 1984-85 and then to Rs. 34,893 crore in 2003- 04. Thus, the export performance of the public sector enterprises in India is quite satisfactory.

The public sector enterprises which played an important role in this regard include—Hindustan Steel Limited, Hindustan Machine Tools (HMT) Limited, Bharat Electronics Ltd., State Trading Corporation (STC) and Metals and Minerals Trading Corporation.

Some public sector enterprises have shown creditable records in achieving import substitution and thereby saved precious foreign exchange of the country. In this regard mention may be made of Bharat Heavy Electricals Limited (BHEL), Bharat Electronics Ltd., Indian Oil Corporations, Oil and Natural Gas Commission (ONGC). Hindustan Antibiotics Ltd. (HAL) etc. which have paved a successful way tor import substitution in the country.

***7. Contribution to Central Exchequer:***

The public sector enterprises are contributing a good amount of resources to the central exchequer regularly in the form of dividend, excise duty, custom duty, corporate taxes etc. During the Sixth Plan, the contribution of public enterprises to the central exchequer was to the tune of Rs. 27,570 crore.

Again this contribution has increased from Rs. 7,610 crore in 1980-81 to Rs. 18,264 crore in 1989-90 and then to Rs. 85,445 crore in 2003-04. Out of this total contribution, the amount of dividend contributed only 2 to 3 per cent of it.

***8. Checking Concentration of Income and Wealth:***

Expansion of public sector enterprises in India has been successfully checking the concentration of economic power into the hands of a few and thus are redressing the problem of inequalities of income and-wealth of the economy. Thus, the public sector can reduce this problem of inequalities through diversion of profits for the welfare of the poor people, undertaking measures for labour welfare and also by producing commodities for mass consumption.

***9. Removal of Regional Disparities***:

From the very beginning industrial development in India was very much skewed towards certain big port cities like Mumbai, Kolkata and Chennai. In order to remove regional disparities, the public sector tried to disperse various units towards the backward states like Bihar, Orissa, and Madhya Pradesh. Thus, considering all these foregoing aspects it can be observed that in-spite of showing poor performance, the public sector is playing dominant role in all-round development of the economy of the country.

# UNIT - 3

**Indian economy**

**Concept of Planning:**

Planning is a continuous process that involves choices and decision making about allocation of available resources with the objective of achieving effective and efficient utilization and growth of these resources. In India, planning is done both at the center as well as the state level. Economic planning is done by the central authority after a complete survey of the economic situation. The policy objectives are designed based on the future development goals of the country.

In India, until 2014, planning was the responsibility of the National Planning Commission that was established on March 15, 1950. The first five-year plan was prepared by the Planning Commission for the period 1951-56. The first Prime Minister of India, Pandit Jawaharlal Nehru was the first chairman of the Planning Commission. The Prime Minister was always the ex-officio chairman of the Planning Commission. The Deputy Chairman who was nominated by commission held the rank of a cabinet minister.

In 2014, the government led by Prime Minister Narendra Modi dissolved the Planning Commission and replaced it by the think tank called NITI Aayog. NITI here stands for National Institution for Transforming India.

**Major features of economic planning are as follows:**

(i) It is concerned with survey and diagnosis of the present economic scenario.
(ii) It defines policy and objectives to be achieved in future.
(iii) It presents a macroeconomic projection for the whole economy.
(iv) It formulates strategies through which objectives are to be achieved.
(v) It guides and directs the economy along with the path of growth and development.
(vi) It creates productive capacity in the country

## Economic Planning in India- Objectives of Indian Planning

At the time of independence, Indian economy was a backward economy. In order to move the economy on the path of development, India adopted a model of planned economic development under the mixed economy structure.

**The main objectives of planning in India include the following:**

**(i) Increase in National Income:**

This objective gets translated into an increase in not only the national income, but also in the level of production and real per capita income.

**(ii) Achieving Full Employment:**

Unemployment is a curse in any society. It is more so when there is an inadequate social security or its total absence. Employment imparts dignity to human beings and is also an important means of reducing poverty and inequalities. The objective of planning was not to reduce inequalities by lowering the income levels of the richer sections but by raising the income levels of the poorer sections of the society.

**(iii) Reduction in Inequalities of Income and Wealth:**
India being an extremely poor country, inequalities of income and wealth translate themselves into absolute poverty and destitution. There can be no difference of opinion regarding the desirability of reducing such inequalities, particularly because they also lead to inequality of economic opportunities.

**(iv) Creation of a Socialist Society:**
This was an obvious and generally accepted objective inclusive-of there being equal opportunities of economic advancement for all sections of the society.

**(v) Removal of Bottlenecks:**
Removal of Bottlenecks in the way of economic growth such as, low rates of saving and investment, inefficient technology, problems of balance of payments, absence of basic industries and insufficient infrastructure, etc. is also an important objective of the Indian planning.

**(vi) Industrialization:**
Indian plans have adopted a strategy of industrialization of the economy with particular emphasis on heavy and basic industries. It also assigned a high priority to agricultural growth but in practice, agricultural and rural development received inadequate attention.
Some analysts are of the view that India, with its vast agricultural potential should have first concentrated on the development of agriculture and rural parts of the economy. Such an approach would have generated economic surplus needed for capital formation and investment.

**(vii) Self-Reliance:**
Our plans also aimed at "self-reliance". It deals with the freedom from the need to import and therefore a policy of "import substitution" regardless of its cost. This objective should have been taken to mean "ability to pay for our imports through

our export earnings". Thus, we should have added to our export capacity and competitive strength in international markets.

## Economic Planning in India – Importance of Economic Planning in India

Planned economy has not been established in any country in a day or in a year. Planning in practice has a history of its growth and change over few decades. History of economic growth in some countries reveals that planning has been painfully evolved and its growth or change is attributed to certain factors which have facilitated the growth of planned economy in an increasing number of countries.

Its development is the extensive and intensive. It is intensive in the sense that its process of perfection is never complete. It is always subject to improvement. Its requirements are greatly changing, certain historical factors have profoundly favored the development of planned economy. A variety of factors have led to the adoption of planning in various countries.

**The importance of economic planning may be explained as follows:**

**i. Best Utilization of Natural Resources:**

Economic planning facilitates best utilisation of natural resources. By adopting the process of economic planning it is possible to utilise available labour and capital in the interest of nation which helps in maximisation of national output.

**ii. Growth in National and per capita Income:**

The maximum level of production increases the level of savings and investment which ultimately provide sufficient capital for economic development. Hence planned economy proves an important instrument for growth in national and per capita income.

**iii. Improvement in Living Standard:**

The standard of living of India's population is far below the required level. A subsistence segment of population fails to even meet their basic needs of life. The main reason responsible behind such a miserable situation has been low level of per capita income and social evils which can be improved by adopting the process of planning.

**iv. Balanced Economic Development:**

The form of economic growth in India has always been unbalanced. While preparing industrial plan, more emphasis has been given to development of consumer industries whereas much is left remained to plan for development of basic industries. The process of planning may be helpful in balanced economic development.

**v. Full Employment:**

The problem of unemployment can be scale-down by encouraging development of small and cottage industries in the country. It will also reduce the pressure of population on agriculture. In India's five-year plans, efforts have been made to generate more and more employment opportunities.

**vi. Equal Distribution of Wealth and Income:**

In India, there exist serious inequalities in the distribution of income and wealth. A small minority of population is rolling in luxuries, while the vast masses of people are unable to make their both ends meet. The existence of plenty for the few amidst mass poverty is indeed the most undesirable phenomenon in the country and intensity of which can be minimized by adopting planned economy.

**Vii. for Self-Sufficiency:**

The initial process of economic development requires huge capital investment. By adopting the process of planning available capital resources can be best utilised in the interest of nation.

## Difference between NITI Aayog and Planning Commission
## The differences between NITI Aayog and Planning Commission are:

| **NITI Aayog** | **Planning Commission** |
|---|---|
| NITI Aayog has not been given the mandate or powers to impose policies | The Planning Commission had the power to impose policies on |

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|---|---|
| on States. NITI Aayog is basically a think-tank or an advisory body. | States and for the projects approved by the Planning Commission. |
| The powers for allocation of funds have not been given to the NITI Aayog. The powers are with the Finance Ministry. | The Planning Commission had the power to allocate funds to the State Governments and various Central Government Ministries for various programmes and projects at National and State Levels. |
| In NITI Aayog, State Governments have to play a more proactive role. | State Governments did not have much role to play apart from taking part in the meetings. The State Government's role was confined to the National Development Council. |
| Based on the requirements, there are part-time members appointed in NITI Aayog. | The Planning Commission did not have any provisions for the appointment of part-time members. |
| The Governing Council of NITI Aayog has Lieutenant Governors of Union Territories and State Chief Ministers. | The National Development Council had Lieutenant Governors and State Chief Ministers. Planning Commission had to report to the National Development Commission |
| The CEO of NITI Aayog is appointed by the Prime Minister. Secretaries are known as CEO. | Planning Commission secretaries were appointed through the usual process. |
| The number of full-time members in NITI Aayog could be lesser than the numbers that the Planning Commission had. | The last Planning Commission had eight full-time members. |

| | |
|---|---|
| Under NITI Aayog organization structure new posts were created – CEO, Vice-Chairperson. CEO has the rank of a Secretary. Four Cabinet members would serve as ex-officio members. NITI Aayog has two-part time members and five full-time members. | The Planning Commission organizational structure consisted of full-time members, member secretary and a Deputy Chairperson. |
| In NITI Aayog, the final policy would bear fruit after due consultations are held with State Governments in the policy formulation stage. | The Planning Commission first formulated policies and then State Governments were consulted regarding the allocation of funds for the programmes or projects. |

# NEXT TOPIC
# Monetary Policy

Monetary policy is an economic policy that manages the size and growth rate of the money supply in an economy. It is a powerful tool to regulate macroeconomic variables such as inflation and unemployment. These policies are implemented through different tools, including the adjustment of the interest rates, purchase or sale of government securities, and changing the amount of cash circulating in the economy. The central bank or a similar regulatory organization is responsible for formulating these policies.

**Instruments of Monetary Policy**

**The instruments of monetary policy are of two types:**

1. **Quantitative,** general or indirect (CRR, SLR, Open Market Operations, Bank Rate, Repo Rate, Reverse Repo Rate)

2. **Qualitative,** selective or direct (change in the margin money, direct action, moral suasion)

These both methods affect the level of aggregate demand through the supply of money, cost of money and availability of credit. Of the two types of instruments, the first category includes bank rate variations, open market operations and changing reserve requirements (cash reserve ratio, statutory reserve ratio).

Policy instruments are meant to regulate the overall level of credit in the economy through commercial banks. The selective credit controls aim at controlling specific types of credit. They include changing margin requirements and regulation of consumer credit.

**a. Bank Rate Policy:**
The bank rate is the minimum lending rate of the central bank at which it rediscounts first class bills of exchange and government securities held by the commercial banks. When the central bank finds that inflation has been increasing continuously, it raises the bank rate so borrowing from the central bank becomes costly and commercial banks borrow less money from it (RBI).

The commercial banks, in reaction, raise their lending rates to the business community and borrowers who further borrow less from the commercial banks. There is contraction of credit and prices are checked from rising further. On the contrary, when prices are depressed, the central bank lowers the bank rate.

It is cheap to borrow from the central bank on the part of commercial banks. The latter also lower their lending rates. Businessmen are encouraged to borrow more. Investment is encouraged and followed by rise in Output, employment, income and demand and the downward movement of prices is checked.

**b. Open Market Operations:**
Open market operations refer to sale and purchase of securities in the money market by the central bank of the country. When prices start rising and there is need to control them, the central bank sells securities. The reserves of commercial banks are reduced and they are not in a position to lend more to the business community or general public.

Further investment is discouraged and the rise in prices is checked. Contrariwise, when recessionary forces start in the economy, the central bank buys securities. The reserves of commercial banks are raised so they lend more to business community and general public. It further raises Investment, output, employment, income and demand in the economy hence the fall in price is checked.

**c. Changes in Reserve Ratios:**
Under this method, CRR and SLR are two main deposit ratios, which reduce or increases the idle cash balance of the commercial banks. Every bank is required by law to keep a certain percentage of its total deposits in the form of a reserve fund in its vaults and also a certain percentage with the central bank.
When prices are rising, the central bank raises the reserve ratio. Banks are required to keep more with the central bank. Their reserves are reduced and they lend less. The volume of investment, output and employment are adversely affected. In the opposite case, when the reserve ratio is lowered, the reserves of commercial banks are raised. They lend more and the economic activity is favorably affected.

**2. Selective Credit Controls:**
Selective credit controls are used to influence specific types of credit for particular purposes. They usually take the form of changing margin requirements to control speculative activities within the economy. When there is brisk speculative activity in the economy or in particular sectors in certain commodities and prices start rising, the central bank raises the margin requirement on them.

**a. Change in Margin Money:**
The result is that the borrowers are given less money in loans against specified securities. For instance, raising the margin requirement to 70% means that the pledge of securities of the value of Rs 10,000 will be given 30% of their value, i.e. Rs 3,000 as loan. In case of recession in a particular sector, the central bank encourages borrowing by lowering margin requirements.

**b. Moral Suasion:** Under this method RBI urges to commercial banks to help in controlling the supply of money in the economy.

# Objectives of the Monetary Policy of India

**1. Price Stability:** Price Stability implies promoting economic development with considerable emphasis on price stability. The centre of focus is to facilitate the environment which is favorable to the architecture that enables the developmental projects to run swiftly while also maintaining reasonable price stability.

**2. Controlled Expansion Of Bank Credit:** One of the important functions of RBI is the controlled expansion of bank credit and money supply with special attention to seasonal requirement for credit without affecting the output.

**3. Promotion of Fixed Investment:** The aim here is to increase the productivity of investment by restraining non essential fixed investment.

**4. Restriction of Inventories:** Overfilling of stocks and products becoming outdated due to excess of stock often results is sickness of the unit. To avoid this problem the central monetary authority carries out this essential function of restricting the inventories. The main objective of this policy is to avoid over-stocking and idle money in the organization

5. **Promotion of Exports and Food Procurement Operations:** Monetary policy pays special attention in order to boost exports and facilitate the trade. It is an independent objective of monetary policy.

**6. Desired Distribution of Credit:** Monetary authority has control over the decisions regarding the allocation of credit to priority sector and small borrowers. This policy decides over the specified percentage of credit that is to be allocated to priority sector and small borrowers.

**7. Equitable Distribution of Credit:** The policy of Reserve Bank aims equitable distribution to all sectors of the economy and all social and economic class of people

**8. To Promote Efficiency:** It is another essential aspect where the central banks pay a lot of attention. It tries to increase the efficiency in the financial system and tries to incorporate structural changes such as deregulating interest rates, ease operational constraints in the credit delivery system, to introduce new money market instruments etc.

**9. Reducing the Rigidity:** RBI tries to bring about the flexibilities in the operations which provide a considerable autonomy. It encourages more competitive environment and diversification. It maintains its control over financial system whenever and wherever necessary to maintain the discipline and prudence in operations of the financial system.

# Conclusion:

So it can be conclude that the implementation of the monetary policy plays a very prominent role in the development of a country. It's a kind of double edge sword, if money is not available in the market as the requirement of the economy, the investors will suffer (investment will decline in the economy) and on the other hand if the money is supplied more than its requirement then the poor section of the country will suffer because the prices of essential commodities will start rising.

# NEXT TOPIC

## Meaning of Fiscal policy

Fiscal policy means the use of taxation and public expenditure by the government for stabilization or growth. **According to Culbarston**, "By fiscal policy we refer to government actions affecting its receipts and expenditures which we ordinarily taken as measured by the government's receipts, its surplus or deficit." The government may offset undesirable variations in private consumption and investment by compensatory variations of public expenditures and taxes.

Arthur Smithies defines fiscal policy as "a policy under which the government uses its expenditure and revenue programmes to produce desirable effects and avoid undesirable effects on the national income, production and employment." Though the ultimate aim of fiscal policy in the long-run stabilisation of the economy, yet it can be achieved by moderating short-run economic fluctuations.

### Objectives of Fiscal Policy

1. To maintain and achieve full employment.

2. To stabilize the price level.

3. To stabilize the growth rate of the economy.

4. To maintain equilibrium in the balance of payments.

5. To promote the economic development of underdeveloped countries.

## Major Instruments of Fiscal Policy

Some of the major instruments of fiscal policy are as follows: A. Budget B. Taxation C. Public Expenditure D. Public Works E. Public Debt.

**A. Budget:**

The budget of a nation is a useful instrument to assess the fluctuations in an economy.

**Let us briefly explain them:**

**1. Annual Balanced Budget:**

The classical economists propounded the principle of annually balanced budget. They defended it with force till the deep rooted crisis of 1930's.

**The reasons for their reacceptance of this principle are as under:**

(i) They maintained that there should be balance in income and expenditure of the government;

(ii) They felt that automatic system is capable to correct the evils;

(iii) Balanced budget will not lead to depression or boom in the economy;

(iv) It is politically desirable as it checks extravagant spending of the state;

(v) This type of budget assures full employment without inflation;

(vi) The principle is based on the notion that government should increase the taxes to get more money and reduce expenditure to make the budget balanced.

However, this principle is subject to certain objections.

**These objection are as under:**

(i) Classical version that balanced budget is neutral is not well based. In practice, a balanced budget can be expansionary.

(ii)The assumptions of full employment and automatic adjustment are too untenable in a modern economy.

(iii)Some economists also argue that annually balanced budget involves lesser burden of the taxes.

**2. Cyclically Balanced Budget**:

The cyclical balanced budget is termed as the 'Swedish budget'. Such a budget implies budgetary surpluses in prosperous period and employing the surplus revenue receipts for the retirement of public debt. During the period of recession, deficit budgets are prepared in such a manner that the budget surpluses during the earlier period of inflation are balanced with deficits.

The excess of public expenditure over revenues are financed through public borrowings. The cyclically balanced budget can stabilize the level of business activity. During inflation and prosperity, excessive spending activities are curbed with budgetary surpluses while budgetary deficits during recession with raising extra purchasing power.

**This policy is favored on the following account:**

(i) The government can easily adjust its finances according to the needs;

(ii)This policy works smoothly in all times like depression, inflation, boom and recession;

(iii) Cyclically balanced budget simply ensures stability but gives no guarantee that the system will get stabilized at the level of full employment.

**3. Fully Managed Compensatory Budget:**

This policy implies a deliberate adjustment in taxes, expenditures, revenues and public borrowings with the motto of achieving full employment without inflation. It assigns only a secondary role to the budgetary balance. It lays down the emphasis on maintenance of full employment and stability in the price level. With this principle, the growth of public debt and the problem of interest payment can be easily avoided. Thus, the principle is also called 'functional finance.'

**The fully managed compensatory budget has been criticized on the following grounds:**

(i) It considers that the government should give blanket guarantee against unemployment.

(ii) This policy is not automatic.

(iii) It brings political upheavals as it delays the implementation of appropriate fiscal measures.

(iv) A country is burdened with debt in the long run period.

(v) This policy is a prolonged lag which in practice has a disturbing effect on the economy.

**B. Taxation:**
Taxation is a powerful instrument of fiscal policy in the hands of public authorities which greatly affect the changes in disposable income, consumption and investment. An anti- depression tax policy increases disposable income of the individual, promotes consumption and investment. Obviously, there will be more funds with the people for consumption and investment purposes at the time of tax reduction.

This will ultimately result in the increase in spending activities i.e. it will tend to increase effective demand and reduce the deflationary gap. In this regard, sometimes, it is suggested to reduce the rates of commodity taxes like excise duties, sales tax and import duty. As a result of these tax concessions, consumption is promoted

**Anti-Inflationary Tax Policy:**
An anti-inflationary tax policy, on the contrary, must be directed to plug the inflationary gap. During inflation, fiscal authorities should not retain the existing tax structure but also evolve such measures (new taxes) to wipe off the excessive purchasing power and consumer demand. To this end, expenditure tax and excise duty can be raised.

**C. Public Expenditure:**
The active participation of the government in economic activity has brought public spending to the front line among the fiscal tools. The appropriate variation in public expenditure can have more direct effect upon the level of economic activity than even taxes. The increased public spending will have a multiple effect upon income, output and employment exactly in the same way as increased investment

has its effect on them. Similarly, a reduction in public spending, can reduce the level of economic activity through the reverse operation of the government expenditure multiplier.

**(i) Public Expenditure in Inflation:**

During the period of inflation, the basic reason of inflationary pressures is the excessive aggregate spending. Both private consumption and investment spending are abnormally high. In these circumstances, public spending policy must aim at reducing the government spending. In other words, some schemes should be abandoned and others be postponed. It should be carefully noted that government spending which is of productive nature, should not be shelved, since that may aggravate the inflationary dangers further.

However, reduction in unproductive channels may prove helpful to curb inflationary pressures in the economy.

**(ii) Public Expenditure in Depression:**

In depression, public spending emerges with greater significance. It is helpful to lift the economy out of the morass of stagnation. In this period, deficiency of demand is the result of sluggish private consumption and investment expenditure. Therefore, it can be met through the additional doses of public expenditure equivalent to the deflationary gap. The multiplier and acceleration effect of public spending will neutralize the depressing effect of lower private spending's and stimulate the path of recovery.

**D. Public Works:**

Keynes General Theory highlighted public works programme as the most significant anti-depression device. There are two forms of expenditure i.e., Public Works and 'Transfer Payments. Public Works according to Prof. J.M. Clark, are durable goods, primarily fixed structure, produced by the government.

They include expenditures on public works as roads, rail tracks, schools, parks, buildings, airports, post offices, hospitals, irrigation canals etc. Transfer payments are the payments such like interest on public debt, subsidy, pension, relief payment, unemployment, insurance and social security benefits etc. The expenditure on capital assets (public works) is called capital expenditure.

**Public works are supported as an anti-depression device on the following grounds:**

(i) They absorb hitherto unemployed workers.

(ii) They increase the purchasing power of the community and thereby stimulate the demand for consumption goods.

(iii)They help to create economically and socially useful capital assets as roads, canals, power plants, buildings, irrigation, training centres and public parks etc.

(iv) They provide a strong incentive for the growth of industries which are generally hit by the state of depression.

(v) They help to maintain the moral and self respect of the work force and make use of the skill of unemployed people.

**E. Public Debt:**

Public debt is a sound fiscal weapon to fight against inflation and deflation. It brings about economic stability and full employment in an economy.

**The government borrowing may assume any of the following forms mentioned as under:**

**(a) Borrowing from Non-Bank Public:**

When the government borrows from non-bank public through sale of bonds, money may flow either out of consumption or saving or private investment or hoarding. As a result, the effect of debt operations on national income will vary from situation to situation. If the bond selling schemes of the government are attractive, the people induce to curtail their consumption, the borrowings are likely to be non inflationary.

**(b) Borrowing from Banking System:**

The government may also borrow from the banking institutions. During the period of depression, such borrowings are highly effective. In this period, banks have excessive cash reserves and the private business community is not willing to borrow from banks since they consider it unprofitable.

When unused cash lying with banks is lent out to government, it causes a net addition to the circular flow and tend to raise national income and employment. Therefore, borrowing from banking institution have desirable and favourable effect specially in the period of depression when the borrowed money is spend on public works programmes.

On the contrary, borrowing from this source dry up almost completely in times of brisk business activities i.e. boom. Actually, demand is very high during inflation period, since profit expectation is high in business. The banks, being already loaded up and having no excess cash reserves. Find it difficult to lend to the government. If it is done, it is only through reducing their loans somewhere else.

This leads to a fall in private investment. As the government spending is off-set by a reduction in private investment, there will be no net effect upon national income and employment. In nut shell, borrowing from banking institutions have desirable effect only in depression and is undesirable or with a neutral effect during inflation period.

**(c) Printing of Money:**
Printing of money i.e. deficit financing is another method of public expenditure for mobilizing additional resources in the hands of government. As new money is printed, it results in a net addition to the circular flow. Thus, this form of public borrowing is said to be highly inflationary.

Deficit financing has a desirable effect during depression as it helps to raise the level of income and employment but objection is often raised against its use at the time of inflation or boom. Here, it must be added that through this device, the government not only gets additional resources at minimum cost but can also create appropriate monetary effects like low interest rates and easy money supply and consequently economic system is likely to register a quick revival.

# Fiscal Policy Advantages

- **Unemployment Reduction** – When unemployment is high, the government can employ an expansionary fiscal policy. This involves increasing spending or purchases and lowering taxes. Tax cuts, for example, can mean people have more disposable income, which should lead to increased demand for goods and services. To meet the growing demand, the private sector will increase production, creating more job opportunities in the process.

- **Budget Deficit Reduction** - A country has a budget deficit when its expenditures exceeds revenue. Since the economic effects of this deficit include increased public debt, the country can pursue contraction in its fiscal policy. It will, therefore, reduce public spending and increase tax rates to raise more revenue and ultimately lower the budget deficit.

- **Economic Growth Increase** - The various fiscal measures a country employs facilitate expansion of the national economy. For example, when the government reduces tax rates, businesses and individuals will have a greater incentive to invest and steer the economy forward. To boost the U.S. economy during the Great Recession in 2008, for instance, the government enacted the Economic Stimulus Act of 2008, which provided a range of fiscal measures, including tax incentives to encourage business investment.

# Fiscal Policy Disadvantages

- **Conflict of Objectives** -- When the government uses a mix of expansionary and contractionary fiscal policy, a conflict of objectives can occur. If the national government wants to raise more money to increase its spending and stimulate economic growth, it can issue bonds to the public. Since government bonds offer a range of benefits to buyers, individuals and businesses will buy them heavily. According to the Michigan Institute of Technology, the private sector consequently will have little money left to invest. With reduced investment activity, the economy can slow down.

- **Inflexibility** - There are usually delays in the implementation of fiscal policy, because some proposed measures may have to go through legislative processes. A good demonstration of implementation delays is illustrated by the Great Recession. According to the National Bureau of Economic Research, it began in December 2007, and the country was only able to enact the Economic Stimulus Act in February 2008. Even when the government increases its spending, it takes some time before the money trickles down to people's pockets.

# NEXT TOPIC

# Globalization

**Globalization:**
The term globalization can be used in different contexts. The general usages of the term Globalization can be as follows:

i. Interactions and interdependence among countries.

ii. Integration of world economy.

iii. Deterritorisation.

By synthesizing all the above views Globalization can be broadly defined as follows:

It refers to a process whereby there are social, cultural, technological exchanges across the border.

The term Globalization was first coined in 1980s. But even before this there were interactions among nations. But in the modern days Globalization has touched all spheres of life such as economy, education. Technology, cultural phenomenon, social aspects etc. The term “global village” is also frequently used to highlight the significance of globalization. This term signifies that revolution in electronic communication would unite the world.

Undoubtedly, it can be accepted that globalization is not only the present trend but also future world order.

# Effect of Globalization on India:

Globalization has its impact on India which is a developing country. The impact of globalization can be analyzed as follows:

**1. Access to Technology:**

Globalization has drastically, improved the access to technology. Internet facility has enabled India to gain access to knowledge and services from around the world. Use of Mobile telephone has revolution used communication with other countries.

**2. Growth of international trade:**

Tariff barriers have been removed which has resulted in the growth of trade among nations. Global trade has been facilitated by GATT, WTO etc.

**3. Increase in production:**

Globalization has resulted in increase in the production of a variety of goods. MNCs have established manufacturing plants all over the world.

**4. Employment opportunities:**

Establishment of MNCs have resulted in the increase of employment opportunities.

*5. Free flow of foreign capital:*

Globalization has encouraged free flow of capital which has improved the economy of developing countries to some extent. It has increased the capital formation.

# Negative effect of globalization:

Globalization is not free from negative effects. They can be summed up as follows:

*1. Inequalities within countries:*

Globalization has increased inequalities among the countries. Some of the policies of Globalization (liberalization, WTO policies etc.) are more beneficial to developed countries. The countries which have adopted the free trade agenda have become highly successful. E.g.: China is a classic example of success of globalization. But a country like India is not able to overcome the problem.

*2. Financial Instability:*

As a consequence of globalization there is free flow of foreign capital poured into developing countries. But the economy is subject to constant fluctuations. On account of variations in the flow of foreign capital.

**3. Impact on workers:**
Globalization has opened up employment opportunities. But there is no job security for employees. The nature of work has created new pressures on workers. Workers are not permitted to organize trade unions.

**4. Impact on farmers:**
Indian farmers are facing a lot of threat from global markets. They are facing a serious competition from powerful agricultural industries quite often cheaply produced agro products in developed countries are being dumped into India.

**5. Impact on Environment:**
Globalization has led to 50% rise in the volume of world trade. Mass movement of goods across the world has resulted in gas emission. Some of the projects financed by World Bank are potentially devastating to ecological balance. E.g.: Extensive import or export of meat.

**6. Domination by MNCs:**
MNCs are the driving force behind globalization. They are in a position to dictate powers. Multinational companies are emerging as growing corporate power. They are exploiting the cheap labour and natural resources of the host countries.

**7. Threat to national sovereignty:**
Globalizations results in shift of economic power from independent countries to international organisations, like WTO United Nations etc. The sovereignty of the elected governments are naturally undermined, as the policies are formulated in favour of globalization. Thus globalization has its own positive and negative consequences. According to Peter F Drucker Globalization for better or worse has changed the way the world does business. It is unstoppable. Thus Globalization is inevitable, but India should acquire global competitiveness in all fields.

# <u>NEXT TOPIC</u>
# <u>Privatization:</u>

In the event of globalization privatisation has become an order of the day. Privatisation can be defined as the transfer of ownership and control of public sector units to private individuals or companies. It has become inevitable as a result of structural adjustment programmes imposed by IMF.

Privatisation:

**Privatization was characterized by the following features:**

a. The new set of economic reforms aimed at giving greater role to the private sector in the nation building process and a reduced role to the public sector.

b. To achieve this, the government redefined the role of the public sector in the New Industrial Policy of 1991.

c. The purpose of the same, according to the government, was mainly to improve financial discipline and facilitate modernization.

d. It was also observed that private capital and managerial capabilities could be effectively utilized to improve the performance of the PSUs.

e. The government has also made attempts to improve the efficiency of PSUs by giving them autonomy in taking managerial decisions.

# Forms of Privatization

- ***Denationalization or Strategic Sale***: When 100% government ownership of productive assets is transferred to the private sector players, the act is called denationalization.
- ***Partial Privatization or Partial Sale***: When private sector owns more than 50% but less than 100% ownership in a previously construed public sector company by transfer of shares, it is called partial privatization. Here the private sector owns the majority of shares. Consequently, the private sector possesses substantial control in the functioning and autonomy of the company.
- ***Deficit Privatization or Token Privatization:*** When the government disinvests its share capital to an extent of 5-10% to meet the deficit in the budget is termed as deficit privatization.

# Objectives of Privatization

- Improve the financial situation of the government.
- Reduce the workload of public sector companies.
- Raise funds from disinvestment.
- Increase the efficiency of government organizations.
- Provide better and improved goods and services to the consumer.
- Create healthy competition in the society.
- Encouraging foreign direct investments (FDI) in India.

**Causes of Inefficiency of Public Sectors:**

i. Bureaucratic administration

ii. Out dated Technology

iii. Corruption

iv. Lack of accountability.

v. Domination of trade unions

vi. Political interference.

vii. Lack of proper marketing activities.

Privatization has its own advantages and disadvantages Viz:

**Advantages:**

i. Efficiency

ii. Absence of political interference

iii. Quality service.

iv. Systematic marketing

v. Use of modern Technology

vi. Accountability

vii. Creation of competitive environment.

viii. Innovations

ix. Research and development

x. Optimum utilization of resources

xi. Infra structure.

**However, privatization suffers from the following defects.**

i. Exploitation of labour.

ii. Abuse of powers by executives.

iii. Unequal distribution of wealth and income.

iv. Lack of job security for employees.

Privatization has become inevitable in the present scenario. But some control should be exercised by the government over private sectors.

# NEXT TOPIC

# Liberalization:

It is an immediate effect of globalization. Liberalization is commonly known as free trade. It implies removal of restrictions and barriers to free trade. India has taken many efforts for liberalization which are as follows:

**New economic policy 1991.**

**Objectives of the new economic policy.**

i. To achieve higher economic growth rate.

ii. To reduce inflation

iii. To rebuild foreign exchange reserves.

# FEMA:

Foreign exchange Regulation Act 1973 was repealed and Foreign exchange Management Act was passed. The enactment has incorporated clauses which have facilitated easy entry of MNCs.

i. Joint ventures with foreign companies. E.g.: TVS Suzuki.

ii. Reduction of import tariffs.

iii. Removal of export subsidies.

iv. Full convertibility of Rupee on current account.

v. Encouraging foreign direct investments.

The effect of liberalization is that the companies of developing countries are facing a tough competition from powerful corporations of developed countries.

The local communities are exploited by multinational companies on account of removal of regulations governing the activities of MNCs.

# Liberalization in India:

There has been a revolutionary change in Indian Economy since the espousal of the New Economic Strategy in 1991. This had great impacts on all the areas of life in India. When a nation becomes liberalised, the economic effects can be intense for the country and as well as for the investors. Economic liberalisation is relaxing the government regulations in a country to allow the private sector companies to operate business transactions with comparatively fewer restrictions.

With reference to the developing countries, this term denotes to opening of economic borders to multinationals and foreign investments. Investors face problems to enter in the emerging market countries when there are lots of barriers. These barriers can include legal issues, tax laws, foreign investment restrictions, and accounting regulations that can make it difficult or impossible to gain access to the entire nation. The economic liberalisation begins by relaxing these obstacles and relinquishing some control over the direction of the economy to the private sector. This often involves some form of deregulation and a privatization of corporations.

# Objectives

- To boost competition between domestic businesses
- To promote foreign trade and regulate imports and exports
- Improvement of technology and foreign capital
- To develop a global market of a country
- To reduce the debt burden of a country
- To unlock the economic potential of the country by encouraging the private sector and multinational corporations to invest and expand.
- To encourage the private sector to take an active part in the development process.
- To reduce the role of the public sector in future industrial development.
- To introduce more competition into the economy with the aim of increasing efficiency.

# Impacts of Liberalization in India

| Positive impacts of liberalization in India | Negative impacts of liberalization in India |
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| **Free flow of capital:** Liberalisation has improved flow of capital into the country which makes it inexpensive for the companies to access capital from investors. Lower cost of capital enables to undertake lucrative projects which they may not have been possible with a higher cost of capital pre-liberalisation, leading to higher growth rates. | **Destabilization of the economy:** Tremendous redistribution of economic power and political power leads to Destabilizing effects on the entire Indian economy. |
| **Stock Market Performance:** Generally, when a country relaxes its laws, taxes, the stock market values also rise. Stock Markets are platforms on which Corporate Securities can be traded in real time. | **Impact of FDI in Banking sector:** Foreign direct investment allowed in the banking and insurance sectors resulted in decline of government's stake in banks and insurance firms. |
| **Political Risks Reduced:** Liberalisation policies in the country lessens political risks to investors. The government can attract more foreign investment through liberalisation of economic policies. These are the areas that support and foster a readiness to do business in the country such as a strong legal foundation to settle disputes, fair and enforceable laws. | **Threat from Multinationals:** Prior to 1991 MNC's did not play much role in the Indian economy. In the pre-reform period, there was domination of public enterprises in the economy. On account of liberalisation, competition has increased for the Indian firms. Multinationals are quite big and operate in several countries which has turned out a threat to local Indian Firms. |
| **Diversification for Investors:** In a liberalised economy, Investors gets benefit by being able to invest a portion of their portfolio into a diversifying asset class. | **Technological Impact:** Rapid increase in technology forces many enterprises and small scale industries in India to either adapt to changes or close their businesses. |
| **Impact on Agriculture:** In the area of agriculture, the cropping patterns has | **Mergers and Acquisitions:** Acquisitions and mergers are increasing day-by-day. |

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| undergone a huge modification, but the impact of liberalisation cannot be properly measured. It is observed that there are still all-pervasive government controls and interventions starting from production to distribution for the produce. | In cases where small companies are being merged by big companies, the employees of the small companies may require exhaustive re-skilling. Re-skilling duration will lead to non-productivity and would cast a burden on the capital of the company. |

# NEXT TOPIC

# Finance Commission of India

**Finance Commission is a constitutional body for the purpose of allocation of certain revenue resources between the Union and the State Governments. It was established under Article 280 of the Indian Constitution by the Indian President. It was created to define the financial relations between the Centre and the states. It was formed in 1951.**

Articles deal with Finance Commission of India

**Article 280 of the Indian Constitution**

- President after two years of the commencement of Indian Constitution and thereafter every 5 years has to constitute a Finance Commission of India.
- It shall be the duty of the Commission to make recommendations to the President in relation to the:
    - the distribution between the Union and the States of the net proceeds of taxes which are to be, or maybe, divided between them and the allocation between the States of the respective shares of such proceeds;
    - the principles which should govern the grants in aid of the revenues of the States out of the Consolidated Fund of India;
    - any other matter referred to the Commission by the President in the interests of sound finance

    - The Commission shall determine their procedure and shall have such powers in the performance of their functions as Parliament may by law confer on them

**Article 281 of the Indian Constitution**

- It is related to the recommendations of the Finance Commission:
    - The President has to lay the recommendation made by Finance Commission and its explanatory memorandum before each house of Parliament

**Composition of Finance Commission of India**

Finance Commission Chairman and Members

- Chairman: Heads the Commission and presides over the activities. He should have had public affairs experience.
- Four Members.
- The Parliament determines legally the qualifications of the members of the Commission and their selection methods.

Qualifications of Finance Commission Chairman and Members

- The 4 members should be or have been qualified as High Court judges, or be knowledgeable in finance or experienced in financial matters and are in administration, or possess knowledge in economics.
- All the appointments are made by the President of the country.
- Grounds of disqualification of members:
- found to be of unsound mind, involved in a vile act, if there is a conflict of interest
- The tenure of the office of the Member of the Finance Commission is specified by the President of India and in some cases, the members are also re-appointed.
- The members shall give part-time or service to the Commission as scheduled by the President.
- The salary of the members is as per the provisions laid down by the Constitution.

## Functions of the Finance Commission of India

### Functions of Finance Commission

The Finance Commission makes recommendations to the president of India on the following issues:

- The net tax proceeds distribution to be divided between the Centre and the states, and the allocation of the same between states.
- The principles governing the grants-in-aid to the states by the Centre out of the consolidated fund of India.
- The steps required to extend the consolidated fund of a state to boost the resources of the panchayats and the municipalities of the state on the basis of the recommendations made by the state Finance Commission.
- Any other matter referred to it by the president in the interests of sound finance.
- The Commission decides the basis for sharing the divisible taxes by the centre and the states and the principles that govern the grants-in-aid to the states every five years.
- Any matter in the interest of sound finance may be referred to the Commission by the President.
- The Commission's recommendations along with an explanatory memorandum with regard to the actions done by the government on them are laid before the Houses of the Parliament.
- The FC evaluates the rise in the Consolidated Fund of a state in order to affix the resources of the state Panchayats and Municipalities.
- The FC has sufficient powers to exercise its functions within its activity domain.
- As per the Code of Civil Procedure 1908, the FC has all the powers of a Civil Court. It can call witnesses; ask for the production of a public document or record from any office or court.

### Advisory Role of Finance Commission

The recommendations made by the Finance Commission are of an advisory nature only and therefore, not binding upon the government. It is up to the Government to implement its recommendations on granting money to the states. To put it in other words, 'It is nowhere laid down in the Constitution that the recommendations of the commission shall be binding upon the Government of India or that it would amount to a legal right favoring the recipient states to receive the money recommended to be provided to them by the Commission.

# Financial Relations between Centre and State (Art. 268 to 293)

- Post author By B2B
- Post date September
- Comment on Financial Relations between Centre and State (Art. 268 to 293)

The Indian Constitution has elaborate provisions regarding the distribution of revenues between the Union and the States.

The financial relations between the Union and the States can be studied under the following heads:

- **Taxes and duties levied by the Union, but collected and appropriated by the States:**

Stamp duties and duties of excise on medical and toilet preparations are levied by the Government of India, but collected and appropriated by the States, within which such duties are leviable, except in the Union Territories, where they are collected by the Union Government **(Art. 268)**. The proceeds of these duties levied within any State are assigned to that State only and do not form a part of Consolidated Fund of India.

  - **Service tax levied by the Centre, but collected and appropriated by the Centre and the States:**
    Taxes on services are levied by the Centre, but their proceeds are collected and appropriated by both the Centre and the States. Principles of their collection and appropriations are formulated by the Parliament.

- **Taxes levied and collected by the Union, but assigned to the States within which they are leviable (Art.269):**

a) Succession duty in respect of property, other than agricultural land.

b) Estate duty in respect of property, other than agricultural land.

 

c) Terminal taxes on goods or passengers carried by railways, sea or air.

d) Taxes on railway fares and freights taxes on transactions in Stock Exchanges.

- **Taxes levied and collected by the Union and distributed between the Union and the States (Art.270):**

  Certain taxes are levied as well as collected by the Union, but their proceeds are divided between the Union and the States in a certain proportion in order to effect an equitable distribution of the financial resources.

  This category includes all the taxes and duties referred to in the Union List, except the three categories mentioned above, any surcharge and any cess levied for specific purposes. The manner of distribution of net proceeds of these taxes is prescribed by the President, on the recommendation of the Finance Commission.

- **Surcharge on certain taxes (Art.271):**

  The Parliament is, authorized to levy surcharge on the taxes mentioned in the above two categories (Art.369 and Art.370) and the proceeds of such surcharges go to the Centre exclusively and are not shareable.

- **Taxes levied and collected and retained by the states:**

  These are the taxes enumerated in the State List (20 in number) and belong to the States exclusively.

- **Grants-in-Aid:**

  The Parliament may make grants-in-aid from the Consolidated Fund of India to such States as are in need of assistance **(Art.275)**, particularly for the promotion of welfare of tribal areas, including special grant to Assam.

  These are called **statutory grants and made on the recommendation of the Finance Commission**. Apart from this, **Art.282** provides **for discretionary grants by the Centre and States both, for any public purposes**. The Centre makes such grants on the recommendation of the Planning Commission (an extra-constitutional body).

- **Loans:**

The Union Government may provide loan to any State or give guarantees with respect to loans raised by any State.

- **<u>Previous sanction of the President (Art 274):</u>**

  No Bill or amendment can be introduced or moved in either House of Parliament without the previous sanction of the President, if:

1. It imposes or varies any tax in which the States are interested; or
2. It varies the meaning of the expression "Agricultural Income" as defined in the Indian Income-Tax Act; or
3. It affects the principles on which money are distributed to the States; or
4. It imposes a surcharge on the State taxes for the purpose of the Union.

- According to **Article 301, Freedom of Trade,** Commerce **and Intercourse throughout the territory of India is guaranteed**, but Parliament has the power to impose restrictions in public interest.
- Although taxes on income, other than agricultural income, are levied by the Union, yet the **State Legislatures can levy taxes on profession, trade, etc**.
- **Distribution of non-tax revenues:**

  Non tax revenues from post and telegraph, railways, banking, broadcasting, coinage and currency, central public sector enterprises and escheat (death of a person without heir) and lapse (termination of rights) go to the Centre, while State receives non-tax revenues from irrigation, forests, fisheries, state public sector enterprises and escheat and lapse (if property is situated in that state).

- Provision has been made for the constitution of a **Finance Commission** to recommend to the President certain measures **for the distribution of financial resources between the Union and the States (Art.280)**.

  Under the situation of emergencies, these financial relations also undergo changes according to the situation and the President can modify the constitutional distribution of revenues between the Centre and the States.

# <u>Unit - 4</u>

**<u>Meaning and Definition of Foreign Trade or International Trade</u>**

Foreign trade is exchange of capital, goods, and services across international borders or territories. In most countries, it represents a significant share of gross domestic product (GDP). While international trade has been present throughout much of history, its economic, social, and political importance has been on the rise in recent centuries.

All countries need goods and services to satisfy wants of their people. Production of goods and services requires resources. Every country has only limited resources. No country can produce all the goods and services that it requires. It has to buy from other countries what it cannot produce or can produce less than its requirements. Similarly, it sells to other countries the goods which it has in surplus quantities. India too, buys from and sells to other countries various types of goods and services.

Generally no country is self-sufficient. It has to depend upon other countries for importing the goods which are either non-available with it or are available in insufficient quantities. Similarly, it can export goods, which are in excess quantity with it and are in high demand outside.

International trade means trade between the two or more countries. International trade involves different currencies of different countries and is regulated by laws, rules and regulations of the concerned countries. Thus, International trade is more complex.

*According to Wasserman and Haltman, "International trade consists of transaction between residents of different countries".*

A country's analysis of foreign trade can be made in terms of its three main profiles: (i) volume, (ii) composition and (iii) direction.

**Volume of Trade:**

It relates to the size of international transactions. Since a large number of commodities enter in international transaction, the volume of trade can be measured only in terms of money value. The trends in the value of trade over time help to identify the basic forces that may be operating at different periods in the economy.

However, mere absolute changes in the value of trade are not a satisfactory guide. Hence, it is necessary to find the changes in the value of trade by relating them to two variables, viz.

**i. Share of exports/imports in GDP, and**

**ii. Share of exports/imports in world trade.**

The share of exports/imports in GDP indicates the degree of outward-orientation or openness of an economy in regard to its trade. This, in a broad way also reflects the nature of trade strategies adopted in the country. The ratio of exports to GDP could also be interpreted to reflect the average supply capability of the economy in terms of its exports.

It can therefore be called as average propensity to export. A similar ratio between imports and GDP gives the average propensity to import. However, the relative share of exports in output under an efficient allocation of resources will be less in bigger economies than in smaller economies.

The share of exports in the world trade indicates the importance of the country as a nation in the world economy. It reflects the market thrust that the country is able to realize in the presence of the various competitors in the world market. Changes in this ratio, thus, indicate the shift in the position of the comparative advantage of the country.

Further, changes in the exports may be compared to the changes in the value of imports. It is the relationship between two variables, which is known as the terms of trade (TT), i.e. the terms at which exports exchange for imports. Terms of trade can be defined in respect of (i) net barter terms of trade, (ii) gross barter terms of trade, and (iii) income terms of trade.

**Net Barter Terms of Trade:**

Also called as the commodity terms of trade, this measures the relative changes in the import and export prices.

**This is expressed as:**

$N = P_x/P_m$

Where $P_x$ and $P_m$ are price index numbers of exports and imports respectively. A rise in N indicates that a larger volume of imports could be received in exchange for a given volume of exports. However, the net barter terms are relevant only when nothing enters into the trade between countries except sales and purchases of merchandise.

**Gross Barter Terms of Trade:**

This is the ratio of the physical quantity of imports to the physical quantity of exports.

**This is expressed as:**

$\mathbf{G_t = Q_m / Q_x}$

Where $Q_m$ and $Q_x$ are the quantity of volume index numbers of imports and exports respectively. A rise in G, is regarded as a favourable change in the sense that more imports are given volume of exports.

**Income Terms of Trade:**

**This is expressed as:**

I=Px .Qx /Pm

A rise in I indicates that the nation’s capacity to import, based on exports, has increased, i.e. it can obtain a larger volume of imports from the sale of its exports.

# Composition of Trade:

It is indicative of the structure and level of development of an economy. For instance, most of the developing countries depend for their export earnings on a few primary commodities (PCs). These countries export raw materials of agricultural origin and import manufactured industrial products, thus, denying themselves the benefits of value added.

As an economy develops, its trade gets diversified. It no more remains dependent on a few primary commodities for its export as it begins to export more of manufactured industrial goods importing industrial raw materials, capital equipment and technical know-how.

Manufactured exports create greater value addition than the PCs as they go through more stages of processing. The manufacturing sector has greater linkages with the rest of the economy and hence, the downstream effects on exports from these sectors are likely to be greater than primary exports.

The commodities entering the trade could also be classified by various other criteria such as value added per unit of output, productivity of labour, capital intensity in production, the strength of backward and forward linkages, etc.

The shifts in the commodity composition of trade in these categories would bring out the nature of structural changes concerning income generation, employment effect and overall industrialization through linkage effects, etc.

Directions of Trade:

The direction of the trade is indicative of the structure and level of economic development. As a country develops and its trade gets diversified, it has to seek new outlets for its exports. Its horizon of choice in terms of imports also gets widened. The country begins to trade with an increasingly large number of countries.

## The features of Volume, Composition and Direction of India's Foreign Trade are as follows:

### 1) Increasing Share of Gross National Income:

India's foreign trade plays an important role in the Gross National Income. In 1990-91, share of India's foreign trade (import export) in net national income was

17 per cent which in 2006-07 rose to 25 per cent. In 2006-07 exports and imports as percentage of GDP were 14.0 per cent and 21 per cent respectively.

**2) Less Percentage of World Trade:**
Share of India’s foreign trade in world trade has been declining. In 1950-51, India’s share in total import trade of the world was 1.8 per cent and in export trade it was 2 per cent. According to World Trade Statistics, India’s share in world trade has gone-up from 1.4 per cent in 2004 to 1.5 per cent in 2006 and estimated to be 2 per cent in 2009.

**3) Oceanic Trade:**
Most of India’s trade is by sea, India has very little trade relations with its neighing countries like Nepal, Afghanistan, Myanmar, Sri Lanka, etc. Thus, 68 per cent of India’s trade is oceanic trade: Share of these neighing countries in our export trade was 21.8 per cent and in import trade 19.1 per cent.

**4) Dependence on a Few Ports:**

For its foreign trade, India depends mostly on Mumbai, Kolkata, and Chennai ports. These ports are therefore, over-crowded. Recently, India has developed Kandla, Cochin, and Visakhapatnam ports to lessen the burden on former ports.

**5) Increase in Volume and Value of Trade:**
Since 1990-91, volume and value of India’s foreign trade has gone up. India now exports and imports goods which are several time more in value and volume. In 1990-91, total value of India’s foreign trade was Rs 75,751 and in 2008-09, it rose to Rs 22, 15,191 crore. Of it, value of exports was Rs 8, 40,755 crore and that of imports was Rs 13, 74,436 crore.

**6) Change in the Composition of Exports:**
Since independence, composition of export trade of India has undergone a change. Prior to independence, India used to export agricultural products and raw materials, like jute, cotton, tea, oil seeds, leather, food grains, cashew nuts, and mineral products. It also exported manufactured goods. But now in its export kitty are

included mostly manufactured items like, machines, ready-made garments, gems and jewellery, tea, jute manufactures, Cashew Kernels, electronic goods, especially hardware's and software's which occupy prime place in exports.

**7) Change in the Composition of Imports:**

Since Independence, composition of India's import trade has also witnessed a sea change. Prior to Independence, India used to import mostly consumption goods like medicines, cloth, motor vehicles, electrical goods, iron, steel, etc. Now it has been importing mostly petrol and petroleum products, machines, chemicals-, fertilizers, oil seeds, raw materials, steel, edible oils, etc.

**8) Direction of Foreign Trade:**

It refers to the countries with whom a country trades. Main changes in the direction of foreign trade are as under:

In the year 1990, in exports the maximum share, i.e., 17.9 per cent was that of Eastern Europe, i.e., Romania, East Germany, and U.S.S.R., etc. In import trade, maximum share, i.e., 16.5 per cent was that of OPEC, i.e., Iran, Iraq, Saudi Arabia, Kuwait, etc. In 2008-09, the largest share in India's foreign trade (both imports and exports) was that of European Union (EU), i.e., Germany, Belgium, France, U.K., etc., and developing countries. Now, U.A.E., China and U.S.A. have occupied important place in India's foreign trade. The importance of England, Russia, etc., has declined.

**9) Mounting Deficit in Balance of Trade:**

Since 1950-51, India's balance of trade has been continuously adverse except for two years, viz., 1972-73 and 1976-77, besides it has been mounting year after year. In 1950-51 balance of trade was adverse to the tune of Rs 2 crore and by 1990-1991 it rose to Rs 16,933 crore. After the policy of liberalization, the country has witnessed a rapid increase in it. In 1999- 2000 it rose to Rs 77,359crorc and in 2008-09 it amounted to 5, 33,680 crore. Fast rise in the value of imports and slow rise in the value of exports accounted for this tremendous rise in balance of trade deficit.

**10) Trend towards Globalization:**

Globalization and diversification mark the latest trend of India's foreign trade. India's foreign trade is no longer confined or a few goods or a few countries. Presently, India exports 7,500 items to about 190 countries and in its import- kitty there are 6,000 items from 140 countries. It unveiled the changing pattern of India's foreign trade.

**11) Changing Role of Public Sector:**

*Since 1991 the role of public sector in India's foreign trade has undergone a change. Prior to it, State Trading Corporation (STC), Minerals and Metals Trading Corporation (MMTC), Handicraft and Handloom Corporation, Steel Authority of India Ltd. (SAIL), Hindustan Machine Tools (HMT), Bharat Heavy Electrical Limited (BHEL), etc., used to play significant role in India's foreign trade. As a result of implementation of the policy of liberalization, the importance of all these public sector enterprises has diminished.*

# *Next topic*

## Balance of trade

The balance of trade is the value of a country's exports minus its imports. It's the biggest component of the balance of payments that measures all international transactions. It's easy to measure since all goods and many services pass through the customs office.

The trade balance is also the biggest part of the current account. It measures a country's net income earned on international assets. It's the trade balance plus any other payments across borders.

The formula is X - M = TB, where:

X = Exports

M = Imports

TB = Trade Balance

Exports are goods or services made domestically and sold to a foreigner. That includes a pair of jeans you mail to a friend overseas. It could also be signage a corporate headquarter transfers to its foreign office. If the foreigner pays for it, then it's an export.

Imports are goods and services bought by a country's residents but made in a foreign country. It includes souvenirs purchased by tourists traveling abroad. Services provided while traveling, such as transportation, hotels, and meals, are also imports. It doesn't matter whether the company that makes the good or service is a domestic or foreign company. If it was purchased or made in a foreign country, it's an import.

When a country's exports are greater than its imports, it has a trade surplus. When exports are less than imports, it has a trade deficit. On the surface, a surplus is preferable to a deficit. However, this is an overly simplistic assumption. A trade deficit is not inherently bad, as it can be indicative of a strong economy. Moreover, when coupled with prudent investment decisions, a deficit can lead to stronger economic growth in the future.

# Balance of Payments

The balance of payments is the record of all international trade and financial transactions made by a country's residents.

The balance of payments has three components—the current account, the financial account, and the capital account. Current accounts measure international trade, net income on investments, and direct payments. The financial account describes the change in international ownership of assets. The capital account includes any other financial transactions that don't affect the nation's economic output.

## Current Account

The current account measures a country's trade balance plus the effects of net income and direct payments. When the activities of a country's people provide enough income and savings to fund all their purchases, business activity, and government infrastructure spending, then the current account is in balance.

## Current Account: Deficit

A current account deficit is when a country's residents spend more on imports than they save. Other countries lend funds or invest in, the deficit country's businesses to fund that national deficit. The lender country is usually willing to pay for the deficit because its businesses profit from exports to the deficit country. In the short run, the current account deficit is a win/win for both nations.

But if the current account deficit continues for a long time, it will slow economic growth. Foreign lenders will begin to wonder whether they will get an adequate return on their investment. If demand falls off, the value of the borrowing country's currency may also decline. This fall in currency value leads to inflation as import prices rise. It also creates higher interest rates as the government must pay higher yields on its bonds.

## Difference between balance of trade and balance of payments

| **Basis of Difference** | | **Balance of Trade (BOT)** | | **Balance of Payment (BOP)** |
|---|---|---|---|---|
| | | | | |
| 1. Definition | | Balance of Trade is defined as 'difference between export and import of goods and services' | | Balance of Payment is defined as the 'flow of cash between domestic country and all other foreign countries'. It includes not only import and export of goods and services but also includes financial capital transfer. |
| | | | | |
| 2. How Is It Calculated? | | BOT = Net Earning on Exports - Net payment made for imports | | BOP = BOT + (Net Earning on foreign investment i.e. payments made to foreign investors) + Cash Transfer + Capital Account +or - Balancing Item<br>**or**<br>BOP = Current Account + Capital Account + or - Balancing item ( Errors and omissions) |
| | | | | |
| 3. When is it considered as Favorable or Unfavorable? | | If export is more than import, at that time, BOT will be favorable. If import is more than export, at that time, BOT will be unfavorable. | | Balance of Payment will be favorable, if the country has surplus in current account for paying your all past loans in her capital account.<br><br>Balance of payment will be unfavorable, if country has current account deficit and it took more loan from foreigners. After this, it has to pay high interest on extra loan and this will |

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| | | | | make BOP<br>unfavorable. |
| | | | | |
| 4. Solution of being Unfavorable | | To Buy goods and services from domestic country. | | To stop taking of loan from foreign countries. |
| | | | | |
| 5. Factors | | Following are main factors which affect BOT<br>a) cost of production<br>b) availability of raw materials<br>c) Exchange rate<br>d) Prices of goods manufactured at home | | Following are main factors which affect BOP<br>a) Conditions of foreign lenders.<br>b) Economic policy of Govt.<br>c) all the factors of BOT |

# Next topic

# Meaning and Definition of Export Promotion

Export promotion has been defined as "those public policy measures which actually or potentially enhance exporting activity at the company, industry, or national level". Although many forces determine the international flow of goods and services, export promotion is one of the principal opportunities that governments have to influence the volume and types of goods and services exported from their areas of jurisdiction. Government of India, like in almost all other nations, has been endeavoring to develop exports. Export development is important to the firm and to the economy as a whole. Government measures aim, normally, at an overall improvement of the export performance of the nation for the general benefit of the economy. Such measures help exporting firms in several ways.

Export Promotion strategy promotes only the industries that have potential for developing and competing with foreign rivals. Since the goal is to trade abroad, there becomes competition, which in turn remedies the returns to scale. The main goal of the export promotion is to prepare the “potential” industries for competition with the foreign rivals. So the industries at their childhood must be protected for a while.

Exporters, facing the increasing competition, have to improve their technologies, their quality continuously in order to compete with their rivals. They have to make research and development studies.

Comparative advantage theory implies that a country must specialize in the production that uses the mostly possessed factors of production. By this way the structure of the overall industry is in harmony with the country structure. If the country has advantage in human capital then the EP strategy may be a remedy to the unemployment problem.

The indirect effect of the EP strategy appears in the export values of the countries. The increase in exports raises the foreign exchange inflow. However, there may be an increase in import expenditures due to the increasing income of the country, which in turn worsens the country’s trade balance.

# Next topic

## Need for Export Promotion in India

**1) To Earn Foreign Exchange:**

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

**2) To Motivate Organizations to Export:**

In order to motivate organizations to export and earn precious foreign exchange, governments offer certain incentives. These incentives help reduce the tax burden of the exporters and also achieve a competitive price- edge for their products in foreign markets. However, being a member of WTO, each country has to ensure that the incentives offered by its government do not give an unfair advantage to the exporters. Thus, no country is to give special trading advantages to another or to discriminate against its all nations stand on an equal basis and share the benefits of any move towards lower trade barriers (branch). Also, all export incentives have to comply with WTO norms and should be in line with its various principles.

**3) To Promote Interests of Indian Exporters and Keeping Commitment of WTO:**

In India, the framework of export incentives in the form of duty exemption and remission schemes has been devised keeping in mind the interests of exporters as well as the commitments India has made to WTO.

The Duty Exemption Scheme helps exporters import duty-free inputs required for manufacturing export products. The Duty Remission Schemes enable post-exports replenishment/remission of duty on inputs.

**4) To Import Capital Goods:**

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

**5) To Reduce Bureaucratic Hurdles:**

The incentives detailed above are available to all eligible exporters in India. In addition, the government has launched the very ambitious scheme of Special Economic Zones (SEZs) in order to reduce bureaucratic hurdles in importing inputs for exports and exporting finished products from India. These SEZs are modeled on the highly successful Chinese Economic Zones. It is expected that the SEZs will be the engines of growth in international trade for India.

**6) To Correct Unfavorable Balance of Trade:**

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

**7) To Reduce Foreign Loans:**

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

**8) To Achieve the Objective of Self-Reliance:**

One of the main objectives of Indian Plans is to make the country independent of foreign assistance. To achieve this objective, it is necessary to promote exports. By accelerating exports, large amount of foreign currency can be earned.

**9) To Sell Surplus Production:**

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

**10) To Finance Imports:**

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

**11) For the Defense:**

Essential war equipments, weapons, aeroplanes, etc., are imported from advanced countries for our defence. To meet their cost, it is necessary to increase exports.

**12) To contribute Economic Development of Country:**
**Export promotion in terms of facilities and incentives can benefit the organization in several ways which are as follows:**
i) When the domestic market is small, foreign market provides opportunities to achieve economies of scale and growth.

ii) The supply of many commodities, as in the case of a number of agricultural products in India, is more than the domestic demand.

iii) Exports enable certain countries to achieve export-led growth. Fourthly, export markets may help to mitigate the effects of domestic recession.

iv) A country may need to boost its exports to earn enough foreign exchange to finance its imports and service its foreign debt. It may be noted that many countries are suffering from trade deficit and foreign debt.

v) Even in the case of countries with trade surplus export promotion may be required to maintain its position against the international competition and the level of domestic economic activity.

# Next topic:

# Role of Government in Export Promotion:

**Export Promotion Measures in India**
A number of institutions have been set up by the government of India to promote exports. The export and import functions are looked after by the Ministry of Commerce. The Government formulates the export-import policies and programmes that give direction to the exports.

Exim policies aim at export assistance such as export credit, cash assistance, import replenishment, licensing, free trade zones, development of ports, quality control and pre-shipment inspection, and guidance to Indian entrepreneurs to set up ventures abroad.

1. International Presence

The Director of Exhibitions makes arrangements for participation in international exhibitions, holds Indian exhibitions abroad, and runs show rooms in foreign countries and, sets up Trade centers outside India.

2. Export Promotion Council

The Director of Commercial Intelligence is concerned with commercial publicity through various media, monthly publications, directories of foreign importers of Indian products, country-wise.

There are 22 export promotion councils for different products, offering services of export promotion such as price, quality, packing, marketing, transport etc. They conduct market surveys, publish reports on foreign trade, administer various export promotion schemes, and develop trade contacts, quality control, joint participation in trade fairs and exhibitions.

3. Setting up of Commodity boards to promote exports

Commodity Boards are set up to help export of the traditional items. There are seven Commodity Boards apart from All India Handloom and Handicraft Board under the Commerce ministry. They advise the government on its policies, signing trade agreements, fixing quota, etc.

4. Trade reps

There are Trade Representatives abroad who conduct market surveys, furnish information on exports-imports, settle trade disputes and pass on information about the rules and regulations for imports.

5. Indian Institute of Foreign Trade

The Indian Institute of Foreign Trade (IIFT) was set up by the Government in co-operation with trade, industry, universities, educational and research institutions. It is an autonomous body, set up to train people in international trade, conduct research, survey and organizes training programmes.

6. Participation

To promote, organize and participate in the international trade fairs, Government set up Trade Fair Authority of India in 1977. It sets up showrooms and shops in India and abroad. It assists in development of new items for diversification and expansion of India's exports. They publish journals namely, *Journal of Industry &*

*Trade, Udyog Vyapar Patrika, Indian Export Service Bulletin and Economic and Commercial news.*

7. Trade development Authority

In addition to the above, we have Trade Development Authority to collect information, conduct research and render export finance and help in securing and implementing export orders.

8. Financing for export

The Export Credit Guarantee Corporation (ECGC) covers both commercial and political risks on export credit transactions. Its head office is in Mumbai and branches are in Delhi, Calcutta and Chennai. In 1982, the Government set up EXIM Bank with head office in Mumbai, branch offices in other major cities in India and abroad.
EXIM Bank finances exports and imports of machinery, finances joint ventures, provides loan, undertakes merchant banking functions such as underwriting stocks, shares and bonds or debentures, develops and finance export oriented industries, undertakes techno marketing studies and, promotes international trade.

9. Advisory Councils

Some of the State Governments have set up specialized Export Trade Corporations which undertake export promotion. They are established in Andhra Pradesh, Bihar, Karnataka, Uttar Pradesh, Madhya Pradesh, and Himachal Pradesh. There are also Advisory Councils like Board of Trade, Export-Import Advisory Council, etc.

10. Technical assistance and Training

The Small Industries Development Organization (SIDO) with 26 small industries service institutions, provide techno-managerial assistance like motivating entrepreneurs to export, provide information on export-import and offer consultancy services with respect to export procedure, documentation and export incentives.

It also provides training programmes to educate entrepreneurs on exports, conduct seminars, meetings, holds discussions with export promotion agencies and publish small industry export bulletin, besides liaising with the export promotion organizations for solving the problem of small scale exporters.

## **NEXT TOPIC**

# OBSTACLES IN EXPORT PROMOTION:

**1. Adoption of import substitution rather than export promotion strategy:**

India's initial approach to foreign trade can hardly be termed as an 'export promotion' approach. Rather, it was an approach to substitute imports at all costs. Policies were designed so as to protect all those industrial activities that substituted imports resulting into savings in foreign exchange to the exchequer.

This led to creeping inefficiency not only in industrial production but also in the implementing government agencies.

**2. Overprotection to Indian industry from external competition:**

Indian economic policies were designed to encourage domestic production and imports were restrained. Special protection was available to the units in the small-scale sector. A large number of consumer goods could not be produced by the large-scale industrial units.

Such over- protection to special segments not only caused production inefficiencies by way of low productivity but also deprived consumers of quality products.

**3. High import barriers:**

The inward-looking trade policies with long lists of prohibited and restricted items restricted most consumer products from entering the Indian market. One could hardly get imported consumer goods in the open market. Only capital goods, that too generally for export-oriented industrial production, could be imported.

Moreover, importers of such capital goods were required to make export commitments to the government. This restrained Indian manufacturing units in their quality up gradation.

**4. High import tariff:**

The import tariffs in India have been among the highest in the world. Although imports in India were highly restricted till the nineties, even the products that could be imported became uncompetitive in the Indian market due to the high incidence of import tariffs.

High import tariffs encouraged those who could manage to make imported goods available without paying customs duty. As a result, with the connivance of officials and politicians, smuggling took the magnitude of a full-fledged industry in India.

**5.Inadequate infrastructure:**

Infrastructure has been a grey area that has considerably hindered India's economic growth. China's edge in the speedy development of infrastructure is one of the prime causes for its impressive export growth besides the overall economic development.

Infrastructure bottlenecks in India include not only sea ports and airports for cargo handling but also roads, railway, electricity, and telecommunication. However, the infrastructure situation, especially in telecommunication, has improved remarkably in the last decade.

**6. Complexity of trade procedures:**

India's trade procedures have been among the most complex in the world, resulting in much longer processing time and higher transaction costs. Prior to 1990, when the Aligned Documentation System was not yet implemented, there was hardly any synchronization among the documents required by the various government agencies.

However, rationalization and the electronic processing of trade documents have facilitated international trade considerably.

International trade trends enable an international business manager at various stages of decision making to assess trade patterns and explore the reasons. This also provides an overview of the macroeconomic changes in the trade and business environment over the years. Gains from international trade can be assessed using trade indices.

The terms of trade for developing countries have considerably deteriorated whereas it has improved for developed countries. The summary of all economic transactions of a country, termed as balance of payments, has strengthened Tor India in the post-reform period since 1991.

India's sluggish performance in exports has been examined and constraints in India's exports growth have also been deliberated. Analysis of international trade trends can be used for country identification, evaluation, and selection. Besides, the trade composition patterns also facilitate decision making, regarding what to export and to which markets.

## Next topic

## Suggestions to improve export promotion:

India's exports contracted in recent months due to sluggish demand in western markets. India's exports declined for the eighth straight month by 10.3 per cent in July to $23.13 billion, pushing the trade deficit to $12.81 billion. In July 2014, the merchandise exports were at $25.79 billion. Last time exports registered a positive growth was in November 2014 when shipments expanded at the rate of 7.27 per cent. To push export growth, exporters can take help of the government schemes. Here are top export schemes of the Indian Government.

1. Market Development Assistance Scheme

**Description:** Entrepreneurs get funding for participating in trade fairs. It assists exporters for export promotion activities.

**Nature of assistance:** The scheme offers funding up to 90 per cent in respect of to and fro air fare for the participation by MSME entrepreneurs in overseas fairs/trade delegations. The scheme also provides funding for producing publicity material (up to 25 per cent of costs) sector specific studies (up to Rs 2 lakh) and for contesting anti-dumping cases (50 per cent up to Rs 1 lakh).

**Who can apply:** Exporters, entrepreneurs, etc

**From where to apply:** FIEO, Export Promotion Council and Ministry of Commerce

2. Export Oriented Unit (EOU) Scheme

**Description:** EOU Scheme provides an internationally competitive duty-free environment coupled with better infrastructural facilities for export production.

**Nature of assistance:** The units are allowed to import or procure locally without the payment of duty all types of goods including capital goods, raw materials, components, packing materials, consumables, spares and various other specified categories of equipment.

**Who can apply:** Exporters, entrepreneurs, etc.

**From where to apply:** FIEO, Export Promotion Council and Ministry of Commerce

3. Market Access Initiative (MAI) Scheme

**Description:** MAI Scheme is an Export Promotion Scheme, envisaged to act as a catalyst to promote India's exports on a sustained basis.

**Nature of assistance:** The scheme is formulated on focus product focus country approach to evolve specific market and specific product. These activities are eligible for financial assistance - marketing projects abroad, capacity building, support for statutory compliances, studies, project development, etc.

**Who can apply:** Exporters, entrepreneurs, etc.

**From where to apply:** FIEO, Export Promotion Council

4. Software Technology Park (STP) Scheme

**Description:** STP Scheme is a 100 per cent export-oriented scheme for undertaking software development for export using.

**Nature of assistance:** The approvals are given under single window clearance mechanism. All imports of hardware and software in STP units are completely duty free, and import of second-hand capital goods and re-export of capital goods are also permitted.

**Who can apply:** Exporters, entrepreneurs, etc.

**From where to apply:** FIEO, Export Promotion Council and Ministry of Commerce

5. Services Exports from India Scheme (SEIS)

**Description:** The SEIS has been introduced to increase exports of notified services.

**Nature of assistance:** The rewards under SEIS shall be admissible for exports made/services rendered on or after the date of notification of this policy. The duty credit scrip shall be granted as rewards under SEIS. The duty credit scrips and goods imported/domestically procured against them shall be freely transferable.

**Who can apply:** Exporters, entrepreneurs, etc.

**From where to apply:** FIEO, Export Promotion Council and Ministry of Commerce

6. The Merchandise Exports from India Scheme (MEIS)

**Description:** The MEIS has been introduced for the export of specific goods to specified markets.

**Nature of assistance:** Rewards for the export of notified goods to notified markets under MEIS shall be payable as percentage of realized FOB value.

**Who can apply:** Exporters, entrepreneurs, etc.

**From where to apply:** FIEO, Export Promotion Council and Ministry of Commerce

7. Export Promotional Capital Goods (EPCG) Scheme

**Description:** The objective of the EPCG Scheme is to facilitate import of capital goods for producing quality goods and services to enhance India's export competitiveness.

**Nature of assistance:** EPCG Scheme allows import of capital goods for preproduction, production and post-production at zero customs duty.

**Who can apply:** Importers, entrepreneurs, etc?

**From where to apply:** FIEO, Export Promotion Council and Ministry of Commerce

# Next topic:

## Import Substitution Strategy:

For various reasons, many LDCs have ignored primary-exports-led growth strategies in favors of import substitution (IS) development strategies. These policies seek to promote rapid industrialization and, therefore, development by erecting high barriers to foreign goods in order to encourage domestic production. A package of policies, called import substitution (IS), consists of a broad range of control, restriction and prohibitions such as import quotas and high tariffs on imports.

The trade restrictions are intended to "protect" domestic industries so that they can gain comparative advantage and substitute domestic goods for formerly imported goods. IS policies are largely based on the belief that economic growth can be accelerated by actively directing economic activity away from traditional agriculture and resource-based sectors of the economy towards manufacturing.

The broad range of tariffs, quotas and outright prohibitions on imports that are part of IS policies are clearly not a form of infant industry protection. The infant-industry argument states that sectors and industries that can reasonably be expected to gain comparative advantage, after some learning period, should be protected.

But the broad protection under IS policies usually protect all industries indiscriminately, whether they generate technological externalities or have any chance of achieving competitive efficiency.

### PROBLEMS OF IMPORT-SUBSTITUTION IN INDIA

Following are the main problems of import substitution in India:

**(1) High Production Cost at Initial Stage:** Besides the raw material, certain other cost like interest rates, higher price of importable and non traded inputs, technological factors and low productivity contribute to the high cost, of production in India Therefore, commodities produced in the country have high prices in comparison to the imported goods and consumers show, no interest in buying the goods produced for the intention of import-substitution.

**(2) Poor Quality of Production:** Poor quality and inadequacy of inputs, technology and facilities affect the product quality. Policy of import substitution proves unsuccessful due to poor quality products.

**(3) Ignorance of Consumers:** Generally, people believe that imported goods are better than the home products. This view attracts them towards the imported goods and they do not take interest in buying goods produced in the country. Policy of

**(4) Lack of Essential Resources import-substitution** becomes impractical due to lack of resources essential for production. Inadequacy of capital and raw material, backwardness of technology create hindrance in the way of import substitution.

**(5) Dampens Innovation:** Critics observe that such subsidized import substitution generally limits competition, dampens innovation and productivity growth, and keeps the country's real income low.

**(6) Ignores Specialization:** This approach ignores the benefits of specialization and comparative advantage. The consumers and the entire economy might be better off if the emphasis on import substitution were replaced by an emphasis on outward orientation.

**(7) Discriminates against Agriculture:** Import substitution discriminated against agriculture and favored industry. It led to stagnation and impoverishment in rural this, in turn, led to migration to the cities, necessitating the 'unproductive' type of investments.

## SUGGESTIONS TO OVERCOME PROBLEM OF IMPORT SUBSTITUTION

Import Substitution cannot followed indiscriminately in future plans, Following considerations would have to give weight in any effective judicious choice of import substitution:

(1) The guiding principle, which should outweigh all whether import substituting industries will make a contribution to India's economic development through efficient utilization of local resources and also realize foreign exchange for more essential uses.

(2) Those industries should be included in the programme of import substitution where a clear-cut cost advantage could be established.

(3) Only those industries should be included in the programme of import

substitution whose products have adequate domestic or international demand existing or potential.

(4) Import substitution programme should be chalked out in totality rather than in terms of fragments and the growth of selected industries should be assisted through appropriate investment policy and promotional measures.

(5) Cost and quality control should be the keynote of future policy.

(6) Government and industries should encourage research and development to improve the quality of goods.

## <u>Next topic:</u>

## <u>WTO AND INDIA</u>

# Major Provisions of WTO in Connection with India

**(i) WTO Agreement and Agricultural Sector:**

The major fear was found among India farmers who thought that they would be only on the mercy of multinational corporations who control the distribution of vital agricultural inputs, such as seeds, fertilizers, pesticides and insecticides.

Only a few farmers will benefit from the improved inputs of the multinationals. Small farmers will become land less laborer in the course of time and agriculture in India will no longer remain a source of livelihood for two-thirds of India s population. It will only add to their staggering poverty.

The agreement proposes that developing countries should slash direct subsidies on agricultural products (product subsidies) as well as subsidies on inputs like electricity, water, credit and fertilizers (non-product subsidies) to less than 10 percent of the product value.

Developed countries, on the other hand, should slash these subsidies over a period of time to 5 percent. Small and poor farmers are however exempted from this clause. At present, India's total farm subsidies are below 6 percent and therefore, this provision of the Agreement will not adversely affect in India.

**(ii) Slashing Subsidies:**

On the whole, India Agriculture a non-commercial activity will not attract Agreement rule which are relevant for commercial production and trading activities. As India is not an agricultural exporter, the controversy on its impact on India's agriculture will only be marginal. The real impact will be on Japanese and South Korean farmers.

**(iii) Increase in Exports of Food Grains:**

The prices of agricultural products in the developed countries would go up as a result of slashing subsidies. As a result, our farmers will be benefited as getting higher price of their product in the international market. This will stimulate India's exports particularly for rice to countries like Japan and South Korea.

**(vi) Increase in Production:**

It is felt that the prices of certain products in India would also go up due to import of certain agriculture commodities to meet domestic shortage like oilseeds.

**(v) Public Distribution Systems:**

The Agreement does not interfere with the Public Distribution System. India will continue to offer essential food supplies to the weaker sections of the society at subsidized rates.

**(vi) No Increase in Imports of Food Grains:**

As per agreement, it is not expected to raise India's imports of food grains. It is stated in the treaty that the poor countries facing balance of payments problems may continue to impose Tariff on the import of food grains.

India can avail of this provision and avoid imports of foodstuffs, thereby stay off easy imports of food grains. It is doubtful that with nearly 100 percent tariff duty on imports of food grains, 150 percent on processed foods and 300 percent on edible oils, imports can hardly stain in the domestic markets.

**(vii) Patents and Sui-Generis:**
The government of India has clarified that the present policy of not patenting', the seeds would continue. As regards Sui Generis system, it is expected that the protection of the rights of breeders should ensure improved varieties of plant breeds.

The system is the basic research in seed and breed technology India. A critical analysis of patents and Sui-generis shows that seed production, i.e., development of new varieties, their multiplication and marketing which were largely under Government sector in the past years are moving into the hands of private sector.

Latest bio-technological tools are now being deployed by the corporate in the development of hybrid and synthetic seed and planting materials. India has the potential to emerge as a major exporter of seeds in the world market.

**(viii) Freedom to Use Seeds:**
It is doubtful that only rich and big farmers would afford the use of 'brand seeds'. This, in turn will obviously widen the gap between the rich and the poor farmers. It is again a baseless fear. Under WTO Agreement the farmers are free to exchange their seeds with the other. They, therefore, need not necessarily buy seeds from the open market.

**(ix) Market Access:**
Dunkel Draft will in no way injure the interest of Indian farming community. Rather, it will stimulate India's exports of food grains and encourage research in the field of crop farming. The Draft does not interfere with any of our plans of rural upliftment.

The Government is not contemplating any cut in subsidy offered to the framers. Farmers have the full freedom of using a part of their output as seeds for the next crop. They can also exchange their surplus produce mutually.

The treaty proposes guaranteed access to importers of at least 3 percent of the market for each agricultural item. This has been termed as Minimum Compulsory

Access (MCA) in agricultural trade. A country may however get exemption from this clause on the ground of its balance of payment problem.

# Important mcq

**1. Who advocated that India would be truly independent only when the poorest of its people become free of human suffering?**
(A) Mahatma Gandhi

(B) Indira Gandhi

(C) Jawahar Lai Nehru

(D) Subhash Chandra Bose.

**2. Which one of the following states in India has focused more on human resource development?**
(A) Punjab

(B) Karnataka

(C) Kerala

(D) Tamil Nadu

**3. Which of the following programme was launched in the year of 2000?**
(A) National Rural Employment Guarantee Act.

(B) Prime Minister Rozgar Yojana

(C) Swarna Jayanti Gram Swarozgar Yojana

(D) Pradhan Mantri Gramodaya Yojana.

**4. Who conducts the periodical sample survery for estimating the poverty line in India?**
(A) National Survery Organisation

(B) National Sample Survey Organisation

(C) Sample Survey Organisation

(D) None of the above.

**5. Which scheme was started in 1993 to create self-employment opportunities for educated unemployed youth in rural areas and small towns?**
(A) Prime Minister Rozgar Yojana

(B) National Rural Employment Guarantee Act.

(C) Rural Employment Generation Programme

(D)Swarnajayanti Gram Swarozgar Yojana.

**6. For how many days NREGA provides employment?**
(A) 70

(B) 80

(C) 90

(D) 100

**7. Who is considered as poor?**
(A) Landlords

(B) Landless labourer

(C) A rich farmer

(D) Businessman.

**8. Which among the following is the method to estimate the poverty line in India?**
(A) Investment method

(B) Capital method

(C) Human method

(D) Income method.

**9. Women and children under the age of five are food insecure population due to:**

(A) Malnutrition

(B) Healthy diet at

(C) Fats

(D) None of the above.

**10. Which one of the Social groups is vulnerable to poverty?**

(A) Scheduled caste

(B) Urban casual labour

(C) Rural Agricultural households

(D) All of the above.

**11, By which year governments are aiming to meet the Millennium Development Goals including halving the rate of global poverty?**

(A) 2011

(B) 2015

(C) 2045

(D) 2035

**12. Which among the following schemes was started in the year 2000 for the indigent senior citizens?**

(A) PDS

(B) NFWP

(C) SGSY

(D) APS

**13. What is the average calories required in rural areas for measuring poverty?**
(A) 2400 calories per person per day

(B) 2100 calories per person per day

(C) 2800 calories per person per day

(D) None of these.

**14. What is not a one of the major cause of income inequality in India?**
(A) Unequal distribution of land

(B) Lack of fertile land

(C)Gap between rich and poor

(D) Increase in population.

**15. In which of the following countries did poverty actually rise from 1981-2001?**
(A) Sub-Saharan Africa

(B) India

(D) China

(D) Russia.

**16. The calorie requirement is higher in the rural areas because:**
(A) they do not enjoy as much as people in the urban areas

(B) food items are expensive

(C) they are engaged in mental work

(D) People are engaged in physical labour

**17. Which of the following is an indicator of poverty in India?**
(A) Income level

(B) Illiteracy level

(C) Employment level

(D) All of these.

**18. Which one of the following Economic groups is vulnerable to poverty?**
(A) Scheduled Caste

(B) Scheduled Tribes

(C) Rural Agricultural Household

(D) All the above.

**19. Which of the following is true regarding percentage of seasonal and chronic hunger in India?**
(A) It has increased

(B) It has decreased

(C) It is remained same

(D) It has marginally changed.

**20. Which one of these is not a cause of poverty in India?**
(A) Low level of economic development

(B) Migration of people from rural to urban India

(C) Income inequalities

(D) Unequal distribution of land.

**21. Which of the following is not a valid reason for the poverty alleviation programme in India?**
(A) Lack of proper implementation

(B) Lack of right targeting

(C) Corruption at the highest level

(D) Overlapping of schemes.

**22. What is the accepted calories requirement in urban areas?**
**Or**
**What is the average calorie requirement in India in urban areas (per person per day)?**
(A) 2000 cal / person / day

(B) 2100 cal / person / day

(C) 2300 cal / person / day

(D) 2400 cal / person / day

**23. Which communities are categorized as economically vulnerable groups in India?**
(A) Schedule caste

(B) Agricultural labour household

(C) Schedule tribes

(D) All of the above.

**24. In which year was N R E G A enacted?**
(A)2005

(B)2000

(C) 1999

(D) 1993.

**25. Which of the following is not a major reason for the lack of effectiveness of targeted anti-poverty programmes?**
(A) Lack of proper implementation

(B) Lack of right targeting

(C) Overlapping of schemes

(D) All the above.

**26. Calorie requirement in rural areas is more than in the urban areas because:**
(A) rural people eat more

(B) rural people have high bodies

(C) rural people do more hard physical work

(D) rural people have to take more rest.

**27. Poverty ratio in which of the following state has above the national average:**
(A) West Bengal

(B) Tamil Nadu

(C) Andhra Pradesh

(D) Karnataka.

**28. The Concept of 'entitlements' was introduced by:**
(A) Pranab Mukharjee

(B) Amartya Sen

(C) Manmohan Singh

(D) Sonia Gandhi.

**29. The most vulnerable social groups for poverty are:**
(A) Scheduled Tribes

(B) Urban Casual Labourers

(C) Rural Agricultural Labourers

(D) Scheduled Castes.

**30. Which of the following states of India has the highest poverty ratio?**
(A) Bihar

(B) Orissa

(C) Punjab

(D) Assam.

**31. Which of the following is not considered as a social indicator of poverty?**
(A) Less no. of means of transport

(B) Illiteracy level

(C) Lack of access to health care

(D) Lack of job opportunities.

**32. Who are considered as the poorest of the poor?**
(A) Scheduled castes

(B) Scheduled tribes

(C) Disaster struck people

(D) Women female, infants and old people.

**Answers:**

1. (C) 2. (C)3. (D) 4. (B) 5. (A) 6. (D) 7. (B) 8. (D) 9. (A) 10. (A) 11. (B) 12. (D) 13. (A) 14. (B) 15. (A) 16. (D) 17. (A) 18. (D) 19. (B) 20. (B) 21. (B) 22. (B) 23. (B) 24. (A) 25. (D) 26. (C) 27. (A) 28. (B) 29. (A) 30. (B) 31. (A) 32. (D)

# Industrial policy Mcq

**1. Consider the following statements and identify the right ones.**

i. The Industrial Policy of 1948 was the first industrial policy statement by the Government
ii. It gave leading role to the private sector

a. I only
b. ii only
c. both
d. none

**ANSWER: a. I only**

**2. Consider the following statements and identify the right ones.**

i. As per the 1948 policy, six industries were under the mixed sector
ii. New units could be set up by the private sector

a. i only
b. ii only
c. both
d. none
**ANSWER: a. I only**

**3. Which of the following was not an objective of the 1956 industrial policy?**

a. Development of cooperative sector
b. Expansion of public sector
c. Develop heavy and machine making industries
d. None of the above
**ANSWER: d. None of the above**

**4. Consider the following statements and identify the right ones.**

i. The 1980 industrial policy emphasized "economic federalism"
ii. Liberal license policies were advocated for agro-based industries

a. I only
b. ii only
c. both
d. none
**ANSWER: c. both**

**5. Consider the following statements and identify the right ones.**

i. The 1991 industrial reforms exempted all industries from compulsory licensing
ii. There are six industries under compulsory licensing today

a. I only
b. ii only
c. both
d. none
**ANSWER: b. ii only**

**6. Which of the following industries are to be given compulsory licensing?**

a. Alcohol
b. Tobacco
c. Drugs and pharmaceuticals

d. All the above

**ANSWER: d. All the above**

**7. Which of the following industries was de-reserved in 1993?**

a. Atomic energy
b. Atopic minerals
c. Mining of copper and zinc
d. Railways

**ANSWER: c. Mining of copper and zinc**

**8. Consider the following statements and identify the right ones.**

i. The Board for Reconstruction of Public Sector Enterprises is an advisory body for strengthening public sector units
ii. It comprises of a chairman, 3 official and 3 non official members and 3 permanent invitees.

a. i only
b. ii only
c. both
d. none

**ANSWER: c. both**

**9. Which of the following is not a Maha-Ratna industry?**

a. GAIL
b. Coal India Limited
c. SAIL
d. Airports Authority of India

**ANSWER: d. Airports Authority of India**

**10. Which of the following is a nav Ratna category unit?**

a. HAL
b. Oil India Limited
c. MTNL
d. All the above
**ANSWER: d. All the above**

# Important Mcq

# INFLATION

**1. India has experienced persistent and high food inflation in the recent past. What could be the reasons?(2011)**
1. Due to a gradual switchover to the cultivation of commercial crops, the area under the cultivation of food grains has steadily decreased in the last five years by about 30%.

1. As a consequence of increasing incomes, the consumption patterns of the% people have undergone a significant change.
2. The food supply chain has structural constraints.

**2. Which of the statements given above1 are correct?**
(a.) 1 and 2 only

(b.) 2 and 3 only

(c.) 1 and 3 only

(d.) 1, 2 and 3

**Solution (b)**

**3. In terms of economy, the visit by foreign nationals to witness the XIX Common Wealth Games in India amounted to(2011)**
(a.) Export

(b.) Import

(c.) Production

(d.)Consumption

**Solution (a)**

**4. Which one of the following statements appropriately describes the "fiscal stimulus"?(2011)**
(a.) It is a massive investment by the Government in manufacturing sector to ensure the supply of goods to meet the demand surge caused by rapid economic growth

(b.) It is an intense affirmative action of the Government to boost economic activity in the country

(c.) It is Government's intensive action on financial institutions to ensure disbursement of loans to agriculture and allied sectors to promote greater food production and contain food inflation

(d.) It is an extreme affirmative action by the Government to pursue its policy of financial inclusion

**Solution (b)**

3. **Consider the following actions which the Government can take:**

1. Devaluing the domestic currency.
2. Reduction in the export subsidy.
3. Adopting suitable policies which attract greater FDI and more funds from FIIs.

**Which of the above action/actions can help in reducing the current account deficit?**
(a.) 1 and 2

(b.) 2 and 3

(c.) 3 only

(d.) 1 and 3

**Solution (a)**

**6. A rapid increase in the rate of inflation is sometimes attributed to the "base effect". What is "base effect"?(2011)**
(a.) It is the impact of drastic deficiency in supply due to failure of crops

(b.) It is the impact of the surge in demand due to rapid economic growth

(c.) It is the impact of the price levels of previous year on the calculation of inflation rate

(d.)None of the statements (a), (b) and (c) 'given above is correct in this context

**Solution (c)**

**7. Why is the offering of "teaser loans" by commercial banks a cause of economic concern?(2011)**
1. The teaser loans are considered to be an aspect of sub-prime lending and banks may be exposed to the risk of defaulters in future.
2. In India, the teaser loans are mostly given to inexperienced entrepreneurs to set up manufacturing or export units.

**Which of the statements given above is/are correct?**
(a.) 1 only
(b.) 2 only
(c.) Both 1 and 2
(d.) Neither 1 nor 2
**Solution (c)**

**8. In the context of Indian economy, consider the following statements :(2011)**
1. The growth rate of GDP has steadily increased in the last five years.
2. The growth rate in per capita income has steadily increased in the last five years.

**Which of the statements given above is/are correct?**
(a.) 1 only

(b.) 2 only

(c.) Both 1 and 2

(d.) Neither 1 nor 2

**Solution (b)**

**9. In India, which of the following have the highest share in the disbursement of credit to agriculture and allied activities?(2011)**
(a.) Commercial Banks

(b.) Cooperative Banks

(c.) Regional Rural Banks

(d.) Microfinance Institutions

**Solution (a)**

**10. Economic growth is usually coupled with (2011)**
(a.) Deflation

(b.) Inflation

(c.) Stagflation

(d.) Hyperinflation

**Solution (b)**

**11. The lowering of Bank Rate by the Reserve Bank of India leads to (2011)**
(a.) More liquidity in the market

(b.) Less liquidity in the market

(c.) No change in the liquidity in the market

(d.) Mobilization of more deposits by commercial banks

**Solution (a)**

**12. Which one of the following is not a feature of “Value Added Tax”? (2011)**
(a.) It is a multi-point destination-based system of taxation

(b.) It is a tax levied on value addition at each stage of transaction in the production-distribution chain

(c.) It is a tax on the final consumption of goods or services and must ultimately be borne by the consumer

(d.) It is basically a subject of the Central Government and the State Governments are only a facilitator for its successful implementation

**Solution (c)**

**13. A “closed economy” is an economy in which (2011)**
(a.) the money supply is fully controlled

(b.) deficit financing takes place

(c.) only exports take place

(d.) neither exports nor imports take place

**Solution (d)**

**14. Both Foreign Direct Investment (FDI) and Foreign Institutional Investor (FII) are related to investment in a country. Which one of the following statements best represents an important difference between the two? (2011)**
(a.) FII helps bring better management skills and technology, while FDI only brings in capital

(b.) FII helps in increasing capital availability in general, while FDI only targets specific sectors

(c.) FDI flows only into the secondary market, while FII targets primary market

(d.) FII is considered to be more stable than FDI

**Solution (b)**

**15. Microfinance is the provision of financial services to people of low-income groups. This includes both the consumers and the self-employed. The service/services rendered under micro-finance is/are: (2011)**

1. Credit facilities
2. Savings facilities
3. Insurance facilities
4. Fund Transfer facilities

**Select the correct answer using the codes given below the lists:**

(a.) 1 only

(b.) 1 and 4 only

(c.) 2 and 3 only

(d.) 1, 2, 3 and 4

**Solution (d)**

**16. Which of the following can aid in furthering the Government's objective of inclusive growth? (2011)**

1. Promoting Self-Help Groups
2. Promoting Micro, Small and Medium Enterprises
3. Implementing the Right to Education Act

**Select the correct answer using the codes given below:**

(a.) 1 only

(b.) 1 and 2 only

(c.) 2 and 3 only

(d.) 1, 2 and 3

**Solution (d)**

**17. Why is the Government of India disinvesting its equity in the Central Public Sector Enterprises (CPSEs)? (2011)**

1. The Government intends to use the revenue earned-from the disinvestment mainly to pay back the external debt.
2. The Government no longer intends to retain the management control of the CPSEs.

**Which of the statements given above is/are correct?**

(a.) I only

(b.) 2 only

(c.) Both 1 and 2

(d.) Neither 1 nor 2

**Solution (d)**

**18. The Reserve Bank of India (RBI) acts as a bankers' bank. This would imply which of the following? (2012)**

1. Other banks retain their deposits with the RBI.
2. The RBI lends funds to the commercial banks in times of need.
3. The RBI advises the commercial banks on monetary matters.

**Select the correct answer using the codes given below :**

(a) 2 and 3 only

(b) 1 and 2 only

(c) 1 and 3 only

(d) 1, 2 and 3

**Solution (d)**

**19. Under which of the following circumstances may 'capital gains' arise? (2012)**

1. When there is an increase in the sales of a product
2. When there is a. natural increase in the value of the property owned
3. When you purchase a painting and there is a growth in its value due to increase in its popularity

**Select the correct answer using the codes given below :**

(a) 1 only

(b) 2 and 3 only

(c) 2 only

(d) 1, 2 and 3

**Solution (b)**

**20.Which of the following measures would result in an increase in the money supply in the economy? (2012)**

1. Purchase of government securities from the public by the Central Bank
2. Deposit of currency in commercial banks by the public
3. Borrowing by the government from the Central Bank
4. Sale of government securities to the public by the Central Bank

**Select the correct answer using the codes given below :**

(a) 1 only

(b) 2 and 4 only

(c) 1 and 3

(d) 2, 3 and 4

**Solution (c)**

**21.Which of the following would include Foreign Direct Investment in India? (2012)**

1. Subsidiaries of companies in India
2. Majority foreign equity holding in Indian companies
3. Companies exclusively financed by foreign companies
4. Portfolio investment

**Select the correct answer using the codes given below :**

(a) 1, 2, 3 and 4

(b) 2 and 4 only

(c) 1 and 3 only

(d) 1, 2 and 3 only

**Solution (d)**

**22.Consider the following statements: (2012)**
**The price of any currency in international market is decided by the**

1. World Bank
2. demand for goods/services provided by the country concerned
3. stability of the government of the concerned country
4. economic potential of the country in question

**Which of the statements given above are correct?**
(a) 1, 2, 3 and 4

(b) 2 and 3 only

(c) 3 and 4 only

(d) 1 and 4 only

**Solution (b)**

**23.The basic aim of Lead Bank Scheme is that: (2012)**
(a) big banks should try to open offices in each district

(b) there should be stiff competition among the various nationalized banks

(c) individual banks should adopt particular districts for intensive development

(d) all the banks should make intensive efforts to mobilize deposits

**Solution (c)**

**24.In India, in the overall Index of Industrial Production, the Indices of Eight Core Industries have a combined weight of 37-90%. Which of the following are among those Eight Core Industries? (2012)**

1. Cement
2. Fertilizers

3. Natural gas
4. Refinery products
5. Textiles

**Select the correct answer using the codes given below :**

(a) 1 and 5 only

(b) 2, 3 and 4 only

(c) 1, 2, 3 and 4 only

(d) 1, 2, 3, 4 and 5

**Solution (c)**

**25.The balance of payments of a country is a systematic record of (2012)**

(a) all import and transactions of a during a given period normally a year

(b) goods exported from a country during a year

(c) economic transaction between the government of one country to another

(d) capital movements from one country to another

**Solution (a)**

**26.The Reserve Bank of India regulates the commercial banks in matters of (2013)**

1. liquidity of assets
2. branch expansion
3. merger of banks
4. winding-up of banks

**Select the correct answer using the codes given below.**

(a) 1 and 4 only

(b) 2, 3 and 4 only

(c) 1, 2 and 3 only

(d) 1, 2, 3 and 4

**Solution (d)**

**27. An increase in the Bank Rate generally indicates that the: (2013)**
(a) market rate of interest is likely to fall

(b) Central Bank is no longer making loans to commercial banks

(c) Central Bank is following an easy money policy

(d) Central Bank is following a tight money policy

**Solution (d)**

**28. In India, deficit financing is used for raising resources for (2013)**
(a) economic development

(b) redemption of public debt

(c) adjusting the balance of payments

(d) reducing the foreign debt

**Solution (a)**

**29. Which of the following constitute Capital Account? (2013)**
1. Foreign Loans
2. Foreign Direct Investment
3. Private Remittances
4. Portfolio Investment

**Select the correct answer using the codes given below**.
(a) 1, 2 and 3

(b) 1, 2 and 4

(c) 2, 3 and 4

(d) 1, 3 and 4

**Solution (b)**

**30.Consider the following statements** : **(2013)**

1. Inflation benefits the debtors.
2. Inflation benefits the bond-holders.

**Which of the statements given above is/are correct?**

(a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) Neither 1 nor 2

**Solution (a)**

**31. Disguised unemployment generally means (2013)**

(a) large number of people remain unemployed

(b) alternative employment is not available

(c) marginal productivity of labour is zero

(d) productivity of workers is low

**Solution (c)**

**Consider the following liquid assets: (2013)**

1.Demand deposits with the banks

2.Time deposits with the banks

3.Savings deposits with the banks

4.Currency

**The correct sequence of these decreasing order of Liquidity is**

(a) 1-4-3-2

(b) 4-3-2-1

(c) 2-3-1-4

(d) 4-1-3-2

**Solution (d)**

**32.In the context of Indian economy,Open Market Operations' refers to: (2013)**

(a) borrowing by scheduled banks from the RBI

(b) lending by commercial banks to industry and trade

(c) purchase and sale of government securities by the RBI

(d) None of the above

**Solution (c)**

**33.Priority Sector Lending by banks in India constitutes the lending to: (2013)**

(a) agriculture

(b) micro and small enterprises

(c) weaker sections

(d) All of the above

**Solution (d)**

**34.A rise in general level of prices may be caused by: (2013)**

1. an increase in the money supply
2. a decrease in the aggregate level of output

3. an increase in the effective demand

**Select the correct answer using the codes given below.**

(a) 1 only

(b) 1 and 2 only

(c) 2 and 3 only

(d) 1, 2 and 3

**Solution (d)**

**35.Which one of the following groups of items is included in India's foreign-exchange reserves? (2013)**

(a) Foreign-currency assets, Special Drawing Rights (SDRs) and loans from foreign countries

(b) Foreign-currency assets, gold holdings of the RBI and SDRs

(c) Foreign-currency assets, loans from the World Bank and SDRs

(d) Foreign-currency assets, gold holdings of the RBI and loans from the World Bank

**Solution (b)**

**36.Which one of the following is likely to be the most inflationary in its effect? (2013)**

(a) Repayment of public debt

(b) Borrowing from the public to finance a budget deficit

(c) Borrowing from banks to finance a budget deficit

(d) Creating new money to finance a budget deficit

**Solution (d)**

**37Supply of money remaining the same when there is an increase in demand for money, there will be: (2013)**
(a) a fall in the level of prices

(b) an increase in the rate of interest

(c) a decrease in the rate of interest

(d) an increase in the level of income and employment

**Solution (b)**

**38.Economic growth in country X will necessarily have to occur if (2013)**
(a) there is technical progress in the world economy

(b) there is population growth in X

(c) there is capital formation in X

(d) the volume of trade grows in the world economy

**Solution (c)**

**39.The national income of a country for a given period is equal to the: (2013)**
(a) total value of goods and services produced by the nationals

(b) sum of total consumption and investment expenditure

(c) sum of personal income of all individuals

(d) money value of final goods and services produced

**Solution (a)**

**40.Which of the following grants/ grant direct credit assistance to rural households? (2013)**
1. Regional Rural Banks

2. National Bank for Agriculture and Rural Development
3. Land Development Banks

**Select the correct answer using the codes given below**:

(a) 1 and 2 only

(b) 2 only

(c) 1 and 3 only

(d) 1, 2 and 3

**Solution (c)**

**41. The terms 'Marginal Standing Facility Rate' and 'Net Demand and Time Liabilities', sometimes appearing in news, are used in relation to (2014)**

1. banking operations
2. communication networking
3. military strategies
4. supply and demand of agricultural products

**Solution (a)**

**42. What is/are the facility/facilities the beneficiaries can get from the services of Business Correspondent (Bank Saathi) in branchless areas?(2014)**

1. It enables the beneficiaries to draw their subsidies and social security benefits in their villages.
2. It enables the beneficiaries in the rural areas to make deposits and withdrawals.

**Select the correct answer using the code given below**.

1. 1 only
2. 2 only
3. Both 1 and 2
4. Neither 1 nor 2

**Solution (c)**

**43. If the interest rate is decreased in an economy, it will (2014)**

1. decrease the consumption expenditure in the economy
2. increase the tax collection of the Government
3. increase the investment expenditure in the economy
4. increase the total savings in the economy

**Solution (3)**

**44.In the context of Indian economy which of the following is/are the purpose/purposes of 'Statutory Reserve Requirements'?**

1. To enable the Central Bank to control the amount of advances the banks can create
2. To make the people's deposits with banks safe and liquid
3. To prevent the commercial banks from making excessive profits
4. To force the banks to have sufficient vault cash to meet their day-to-day requirements

**Select the correct answer using the code given below.**

1. 1 only
2. 1 and 2 only
3. 2 and 3 only
4. 1, 2, 3 and 4

**Solution (b)**

**45.If the interest rate is decreased in an economy, it will**

1. decrease the consumption expenditure in the economy
2. increase the tax collection of the Government
3. increase the investment expenditure in the economy
4. increase the total savings in the economy

**Solution (c)**

**46.With reference to Union Budget, which of the following is/are covered under Non-Plan Expenditure?**

1. Defense -expenditure
2. Interest payments
3. Salaries and pensions
4. Subsidies

**Select the correct answer using the code given below**.

1. 1 only
2. 2 and 3 only
3. 1, 2, 3 and 4
4. None

**Solution (c)**

**47. The sales tax you pay while purchasing a toothpaste is a**

1. tax imposed by the Central Government.

2. tax imposed by the Central Government but collected by the State Government
3. tax imposed by the State Government but collected by the Central Government
4. tax imposed and collected by the State Government

**Solution (d)**

**48. The main objective of the 12th Five-Year Plan is**

1. inclusive growth and poverty reductions
2. inclusive and sustainable growth
3. sustainable and inclusive growth to reduce unemployment
4. Faster, sustainable and more inclusive growth.

**Solution (d)**

**49. What does venture capital mean?**

1. A short-term capital provided to industries
2. A long-term start-up capital provided to new entrepreneurs
3. Funds provided to industries at times of incurring losses
4. Funds provided for replacement and renovation of industries

**Solution (b)**

**50. With reference to Balance of Payments, which of the following constitutes/constitute the Current Account?**

1. Balance of trade
2. Foreign assets
3. Balance of invisibles
4. Special Drawing Right

**Select the correct answer using the code given below.**

1. 1 only
2. 2 and 3
3. 1 and 3
4. 1, 2 and 4

**Solution (c)**

**51. Which of the following organizations brings out the publication known as 'World Economic Outlook'?**

1. The International Monetary Fund
2. The United Nations Development Programme

3. The World Economic Forum
4. The World Bank

**Solution (a)**

**52 India is regarded as a country with "Demographic Dividend". This is due to: (2011)**

(a.) Its high population in the age group below 15 years

(b.) Its high population in the age group of 15-64 years

(c.) Its high population in the age group above 65 years

(d.) Its high total population

**Solution (b)**

**53.Consider the following specific stages of demographic transition associated with economic development : (2012)**

1. Low birthrate with low death rate
2. High birthrate with high death rate
3. High birthrate with low death rate

**Select the correct order of the above stages using the codes given below :**

(a) 1, 2, 3

(b) 2, 1, 3

(c) 2, 3, 1

(d) 3, 2, 1

**Solution (c)**

**54.To obtain full benefits of demographic dividend, what should India do? (2013)**

(a) Promoting skill development

(b) Introducing more social security schemes

(c) Reducing infant mortality rate

(d) Privatization of higher education

**Solution (a)**

# Export promotion

**Question 1:** Which one among the following is the correct descending sequence of India’s import of commodities in terms of value?

a) Precious metals and stones – Electronic goods – Capital goods – Fertilizers

b) Fertilizers – Precious metals and stones – Electronic goods – Capital goods

c) Capital goods – Electronic goods – Precious metals and stones – Fertilizers

d) Electronic goods – Capital goods – Fertilizers – Precious metals and stones

**Answer : a**

**Question 2 :** Which of the following is not an objective of export promotion capital goods scheme ?
a) Promote import of capital goods to enhance export

b) Promote exports from India

c) Reduce the customs duty collection from manufacturers

d) Infuse high technology capital equipment in the manufacturing sector

**Answer : c**

**Question 3 :** Which one of the following continents accounts for the maximum share in exports from India?
a) Asia

b) Europe

c) Africa

d) North America

**Answer : a**

**Question 4 :** Which among the following products is usually not exported from India?
a) Wheat

b) Rice

c) Sugar

d) Pulses

**Answer : d**

**Question 5 :** Brent index is associated with
a) Crude oil prices

b)Copper future prices

c)Gold future prices

d)shipping rate index

**Answer : a**

**Question 6 :** India has witnessed a number of acute problems immediately prior to the implementation of economic reforms in the early 1990s. Among the following, which one was severe and unmanageable?
a) Industrial backwardness

b) Balance of payments crisis

c) Backwardness of agriculture

d) Shortage of food grains

**Answer : b**

**Question 7 :** During 2016-17, which of the following items under manufacturing goods sector had the highest share in India's exports ?
a) Gems and jewellery

b) Engineering goods

c) Chemical and related products

d) Handicrafts

**Answer : a**

**Question 8 :** Consider the following items imported by India:
1. Capital goods
2. Petroleum
3. Pearls and precious stones
4. Chemicals
5. Iron and steel

The correct sequence of the decreasing order of these items (as per 2016 -17 figures), in terms of value is

a) 1 2 3 4 5

b) 1 2 4 3 5

c) 2 3 1 4 5

d) 2 1 4 5 3

**Answer : c**

**Question 9 :** Which of the following are the major reason for India's recent sluggish export performance?
1. Slowdown in demand from some major importers
2. The appreciation of US dollars
3. Labour laws in India
4. High cost of power in India

Select the correct answer using the codes given below:

a) 1, 3, and 4 only

b) 1, 2, 3, and 4

c) 1 and 2 only

d) 3 and 4 only

**Answer : a**

# Import substitution

**Question 1 :** Which of the following does not form part of current account under balance of payments? a) Export and import of goods

b) Export and import of services

c) Income receipts and payments

d) Capital receipts and payments

**Answer : d**

**Question 2 :** Which of the following pairs is not correctly matched with regard to balance of payment accounts?
a) Import of goods and services – Debit in the current account

b) Receipts of transfer payments – Credit in the current account

c) Direct investment receipt – Credit in the capital account

d) Portfolio investment payments – Debit in the current account

**Answer : d**

**Question 3 :** A country is said to be in debt trap if
a) It has to abide by the conditionality imposed by the International Monetary Fund

b) It is required to borrow money to make interest payments on outstanding loans

c) It has been refused loans or aid by creditors

d) The World Bank charges a very high rate of interest on outstanding as well as new loans

**Answer : b**

**Question 4 :** Balance in capital account refer to the
a) Nation's net exports of goods and services

b) Nation's net exports of financial claims

c) Nation's net exports of international official reserve assets

d) Nation's sum of net exports of goods, services and financial claims

**Answer : b**

**Question 5 :** Which of the following are the components of balance of payments?
1. Financial capital transfer
2. External loan and investment
3. Foreign institutional investment
4. Issuing of external bonds
5. Export and imports of goods and services

a) 1, 2, and 3 only

b) 2, 3, and 4 only

c) 1, 4, and 5 only

d) 1, 2, 3, 4, and 5

**Answer : d**

**Question 6 :** Consider the following components of India's external debt in terms of their share at end March 2017:
1. Multilateral debt
2. Bilateral debt
3. External commercial borrowings
4. NRI deposits

Which of the following is the correct descending order of the above:

a) 1-2-3-4

b) 3-4-1-2

c) 3-1-2-4

d) 1-3-2-4

**Answer : b**

**Question 7 :** Consider the following statements regarding post-liberalization India's balance of payments position:

1. The current account deficit is on account of net import of services.
2. The capital account surplus is on account of large amount of external assistance received on bilateral basis.
3. The balance of payments situation has improved post-liberalization

Select the correct answer using the codes given below:

a) 3 only

b) 2 and 3

c) 1 and 2

d) 1 and 3

**Answer : a**

**Question 8 :** Consider the following statements:

1. India's net exports of goods have a negative balance
2. India's net export of services have a positive balance
3. India is the largest receiver of remittances around the world

Select the correct answer using the codes given below:

a) 2 only

b) 2 and 3

c) 1 and 2

d) a, 2, and 3

**Answer : d**

**Question 9 :** Which of the following steps can be taken to reduce current account deficit in India?

1. Setting the import quota limits
2. reducing export duty on products
3. Setting restrictions on repatriation of profits earned on foreign investment

Select the correct answer using the codes given below:

a) 2 only

b) 2 and 3

c) 1 and 2

d) 1, 2, and 3

**Answer : d**

# Economic planning:

1. The Planning Commission was established in the year

a) 1947

b) 1948

**c) 1950**

d) 1965

2. The first plan started on

a) 1950

**b) 1951**

c) 1965

d) 1991

3. Planning Commission was scrapped on

a) 2015

**b) 2014**

c) 2017

d) 2012

4. Formation of NITI AYOG was announced in

a) 15th August 2015

**b) 15th August 2014**

c) 26th January 2015

d) 26th January 2014

5. NITI AYOG was established on

a) 15th August 2015

b) 26th January 2015

c) 2 nd October 2015

**d) 1 st January 2015**

6. Which of the following is not a feature of Indian planning

a) Development planning

b) Indicative planning

c) Democratic planning

**d) Centralized planning**

7. “GRAND INNOVATION CHALLENGE” was launched by

**a) NITI Aayog**

b) Planning Commission

c) National Planning Committee

d) Finance Commission

8. Full form of NITI Aayog is

a) National Institute for Transforming India

**b) National Institution for transforming India**

c) National Institute for Transmitting India

d) None of the above

9. Who amongst the following is the chairperson of NITI Aayog

a) The president

**b) The Prime Minister**

c) The Union Minister

d) The Finance Minister

10. Who appoints the Vice-Chairperson of NITI Aayog

**a) The Prime Minster**

b) The President

c) The Chief Executive Officer

d) The Union Minister

11. Number of part-time members in NITI Aayog is

a) 5

b) 10

**c) Not exceeding 2**

d) 2

12. The concept of Participatory Development was introduced in

a) 1980s

**b) 1970s**

c) 1950s

d) 2000s

13. Engagement of local people in development project refers to

a) Economic Development

b) Social Development

**c) Participatory Development**

d) Sustainable Development.

14. The entire process of participatory development can be completed in

**a) 4 stages**

b) 5 stages

c) 2 stage

d) 3 stages

15. The form of Participation where the primary stakeholders participate in the discussion and analysis of pre-determined objectives is called

a) Empowerment participation

**b) Participation by collaboration**

c) Participation by consultation

d) Passive participation

16. The father of Indian planning is

a) Jawahar lal Nehru

b) Mahatma Gandhi

c) B.R. Ambedkar

**d) M. Vishveshshwariah**

17. A rolling plan refers to a plan which

a) Does not change its target every year

b) Changes its allocation every year

**c) Changes its allocation and target every year**

d) Changes only its target every year

18. Who amongst the following is the longest serving member of Tripura State Planning Board?

a) Sri Nripen Chakraborty

**b) Sri M.L.Debnath**

c) Sri Jiten Chowdhury

d) Sri Sudhir Majumder

19. Tripura State Planning Board was set up in

a) 1972

b) 1971

**c) 1978**

d) 1985

20. Who among the following was the first chairman of Tripura State Planning Board

a) Sri Manik Sarkar

b) Sri Sudhir Majumder

**c) Sri Nripen Chakraborty**

d) Sri Biplab Kumar Deb

21. Panchayati Raj System is based on the vision of

**(a) Mahatma Gandhi**

(b) Rabindranath Tagore

© Rammohan Roy

(d) None of them.

22. Which Constitutional amendments give recognition and protection to local Government?

(a) 64th and $65^{th}$

**(b) 73rd and $74^{th}$**

© 69th and 70th

(d) None of the above.

23. Panchayati Raj is a

(a) Two tier system

**(b) Three tier system**

© Four tier system

(d) None of the above.

24. District level Panchayats are known as

(a) Panchayat Samiti

(b) Gram Panchayat

**© Zilla Parisad**

(d) None of these.

25. Local Self Government intends to improve

(a) Economic condition

(b) Social condition

**© Both economic and social condition**

(d) None of these.

26. Panchayats are constituted for

(a) Four years

**(b) Five years**

© Six years

(d) None of these.

27. How many seats are reserved in Panchayats for women members?

(a) Two third

**(b) One third**

© Half

(d) None of these.

28. SC/ST seats are reserved in Panchayats on the basis of

**(a) Population**

(b) Area

© Both population and area

(d) None of the above.

29. The G.V.K Rao Committee was appointed by

(a) Government of India

**(b) Planning Commission**

© Block Development Office

(d) None of the above.

30. 73rd Constitutional Amendment Act was passed in

(a) 1991

**(b) 1992**

© 1993

(d) None of the above.

31. The supervision, direction and control of the Panchayati Raj Institution was in the hands of

(a) State Finance Commission

**(b) State Election Commission**

© Central Election Commission

(d) None of the above.

32. The power and function of the Panchayats are enlisted in_ of the Constitution.
(a) Tenth schedule

**(b) Eleventh schedule**

© Twelfth schedule

(d) Thirteenth schedule.

33. Panchayati Raj system was first adopted by the state

(a) Uttar Pradesh

(b) Gujrat

**© Rajasthan**

(d) Goa.

34. – is the elected head of Gram Panchayat.

(a) Councilor

(b) M.L.A

© M. P

**(d) Sarpanch**

35. The Balwant Rai Mehta Committee was appointed by

**(a) The Government of India**

(b) The Planning Commission

© Central Election Commission

(d) None of these

36. Municipal Corporations, Municipal Councils and Nagar Panchayats are three types of_ local Governments

(a) Rural

**(b) Urban**

© Both rural and urban

(d) None of these.

37. Minimum age for membership of panchayat is

(a) 18 years

**(b) 21 years**

© 35 years

(d) None of these.

38. Which of the following system is established on the basis of direct elections?
**(a) Gram Panchayat.**

(b) Panchayat Samiti

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(d) None of these.

39. Which of the following Article is related to Panchayati Raj?

**(a) Article 243**

(b) Article 324.

© Article 124.

(d) Article 73.

# Important long ques:

1. **What are the demographic features of Indian population?**
2. **What are the basic problems associated with Indian agriculture?**
3. **Spot light on the features of Indian trade policy.**
4. **Write a detailed note on structure of Indian economy.**
5. **What is economic planning? What are the salient features of India’s five year plan?**
6. **Write a detailed note on growth and problems of sugar industry?**
7. **Is India over populated? If yes, what steps should be taken to overcome the problems of overpopulation.**
8. **Write a detailed note on agriculture finance? Also explain the role of NABARD in agriculture finance?**
9. **Write down the nature of Indian economy.**
10. **What are the features of Indian foreign trade? Write a note on its composition and direction.**

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